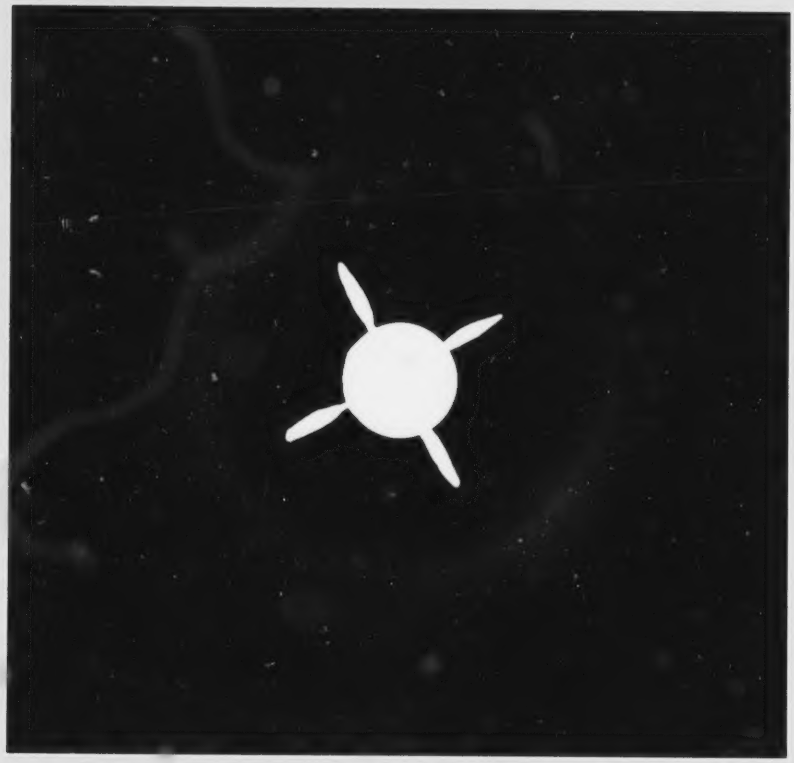
Cooperation South



GLOBALIZATION

and how it affects

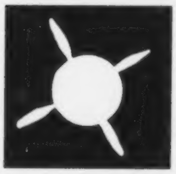
- CULTURE AND COMMUNICATION
- TRADE AND TECHNOLOGY
- REGIONAL ISSUES

UNITED NATIONS DEVELOPMENT PROGRAMME
SPECIAL UNIT FOR TECHNICAL COOPERATION AMONG DEVELOPING COUNTRIES

THE CREATIVITY OF 4.7 BILLION PEOPLE

THE COVER
DESIGNS USED ON ISSUES OF THIS JOURNAL PRESENT ARTIFACTS OR ARTWORKS THAT DEMONSTRATE THE CREATIVITY AND CONNECTIVITY OF PEOPLE ACROSS THE SOUTH.

Invisible star



Who would look to the Dogon people of Mali for expertise in astronomy? Yet the fact is that, for centuries, they studied our solar system. Over 700 years ago, the Dogon plotted the orbit of the stars circling Sirius, the brightest star in the sky. One of them—a tiny, extremely dense star which is invisible to the unaided eye—they called *po tolo* (*po* is a cereal grain with extremely small seeds, and *tolo* means star). They calculated that its elliptical orbit around Sirius takes 50 years to complete. Modern astronomers have confirmed this orbit timing, called the star a "white dwarf", and named it Sirius B.

What is the evidence that the Dogon knew all this back in the 1200s? A long-time Dogon tradition is to hold Sirius-related ceremonies every 60 years, carve a new *kanga* mask for each one, and then store it in a cave in Ibi. In 1931, the cave contained 12 masks —nine intact ones and the remains of three older ones which had crumbled (12 x 60 = 720 years). The cave was seen by two French anthropologists who then stayed and studied with the Dogon for 25 years.

In 1947, Dogon elders and priests trusted them enough to start sharing their ancient celestial knowledge, which the anthropologists published in a book, *The Pale Fox*.

Our cover design is an artistic reproduction of Sirius B as originally depicted in a Dogon temple.

Cooperation South

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The emblem of Technical Cooperation among Developing Countries (TCDC) displays a symbolic bridge joining the countries and people of the Southern hemisphere.

The centre of the emblem—where the Southern, Northern, Eastern and Western parts of the world join—symbolizes a further and ultimate objective of TCDC: the promotion of a truly global partnership for development.

COVER DESIGN SOURCE: GRIAULE, MARCEL AND GERMAINE DIETERLEN, *THE PALE FOX*, ARIZONA CONTINUUM FOUNDATION, CHINO VALLEY, AZ, USA 1986

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FROM THE ADMIMISTRATOR

CAN THE GAP between rich and poor countries be narrowed? Twenty years ago, the United Nations Conference on Technical Cooperation among Developing Countries answered emphatically: yes, it can and it must! At this historic event, held at Buenos Aires in 1978, developing countries endorsed a Plan of Action to pursue that goal through South-South cooperation. Much progress has been accomplished. Today, South-South cooperation is an essential aspect of international development cooperation. But if developing countries are to realize the expectations of the Buenos Aires Plan of Action, South-South cooperation must be strengthened even further in this era of globalization.

This special issue of Cooperation South contributes to the dialogue on the various facets of globalization and its implications for developing countries. Policies and programmes that will ensure growth with equity and progress with stability require us to pay special attention to globalization, with its implications for present and future generations.

We live at a time when significant world changes have brought historically unprecedented improvements in human development, in industrial and developing countries. We must, however, view such gains with a note of caution: they are in stark contrast to the ever-present reality of continuing poverty and unequal access to the benefits of a globalizing economy. More than a quarter of the world's population has seen its income decline over the past fifteen years. Global movements of capital and trade create vast opportunities for growth, yet leave behind entire regions. Gradually, the world is learning to grapple with these effects of globalization. There is now a consensus on the importance of collective management of cross-border issues such as the environment, international crime and the illegal trade in narcotics.

The necessity to find effective approaches to the opportunities and risks of globalization presents an important challenge to developing countries — more extensive debate and more in-depth analysis are needed. This issue is a welcome contribution to the dialogue on how the South can become an effective partner in this era of globalization.

James Gustave Speth
UNDP Administrator
United Nations Development Programme

EDITOR'S FOREWORD

The Many Impacts of Globalization

THIS SPECIAL ISSUE of *Cooperation South* marks the 20th anniversary of the United Nations Conference on Technical Cooperation among Developing Countries held in Buenos Aires, Argentina, in 1978. Participants at the Conference emphasized the need for developing countries to work together in facing up to common development challenges of the time. This issue of our journal seeks to advance South-South Cooperation in a new development context by focusing on globalization — a phenomenon bound to have the most profound impact on the socioeconomic transformation of developing countries in the years ahead.

Our contributors offer various perspectives on the unfolding of globalization — economic, cultural and historical — analyzing its trends and highlighting ways in which developing countries could take advantage of the process for their advancement.

John F.E. Ohiorhenuan sets the stage by describing the many faces of globalization as manifested in trade, finance, investment and production systems. He highlights the constraints imposed on the policy-making autonomy of the state by market-centered global forces, argues for the continued relevance of international development cooperation and stresses the need for developing countries to understand fully the new opportunities globalization brings.

Nadine Gordimer goes beyond the tangible realms of finance and trade in goods and services to shed light on cultural globalization. In contrast to its profit-seeking variants, cultural globalization opens up the bounty of our world to exchange intangibles, such as values, ethics, art and music for mutual enrichment. The author cautions against the danger of cultural dominance and suggests that cultural globalization requires valuing creativity and differences across all aesthetic frontiers.

Hamid Mowlana examines the prospects of turning advances in technology and mass communication into opportunities for the South. Would globalization of the media and communication help developing countries "leapfrog" into the information age, improve their access to technology, speed development, contribute to global understanding, equality and harmony? Or does it discredit indigenous cultures, knowledge and experience, sometimes proven over centuries, undermine national economic and political independence, and generate worse international disparities?

Bold and effective management of technology is, according to Nazli Choucri, the sure means of pursuing development objectives to meet the needs of present generations without compromising options for future generations. Globalization imposes new demands and new opportunities, as seen in the rapid expansion of knowledge in industrial countries and the plethora of its possible applications. This calls for knowledge networking as a means of accelerating the sharing of information about technologies which are more effective, cleaner, and less costly, in order to enable developing countries to "leapfrog"and attain their development objectives, while avoiding the replication of polluting technology.

Considering the high premium placed on technology in the pursuit of economic growth and development, Steve De Castro focuses on the theoretical nuances shaping technology policy. He contends that a wide audience in the South needs updating on the new growth theories, especially those relating to aspects of technology policy. Globalization, he notes, raises many complications for technology policymakers whose failure to make appropriate choices could relegate a country to a passive role in the current transnational technology flows.

The process of globalization has given rise to new systems of global governance engendering many implications for participating countries. Bhagirath Lal Das provides an insider's critique of the structure and functioning of the World Trade Organisation (WTO), highlighting the disadvantages developing countries face in the negotiations and policy frameworks of the organization. He calls for developing countries to work together more, identify their common interests and strength, defend themselves against exploitation, and place their own agenda at center stage in international trade and economic arenas.

This special issue devotes ample space to the current trends towards the formation of regional blocs. Stephen Browne analyzes the main types of regional intercountry partnerships and the reasons for their formation. The author concludes that regionalism is increasingly accepted by small and larger countries as a means of benefiting from open markets without weathering the full blast of global competition. Collective solidarity based on trade, he argues, provides a framework to expand lateral as opposed to vertical forms of development cooperation.

Drawing on the experience of Latin America, María Elena Cardero García agrees that regionalism is a more accessible option for developing countries to enter the globalization process and to reduce the high cost required by global competition. However, Latin America's entry into globalization and regionalism over the past 15 years has not improved macroeconomic performance at the national and regional levels, and its regional blocs compete with one another in the search for market niches and investments from transnational corporations. This calls for new models of cooperation within and between the regions of the South on the basis of identifying problems which are characteristic and common in the South, and exchanging new knowledge with the aim of generating solutions to shared problems.

T. Ademola Oyejide examines globalization, arguing that globalization might contribute to the worsening of the region's marginalization in world trade. He expresses concern that the move toward global policy might cancel out policy initiatives required by the region to reverse its marginalization. For that reason, he calls for a new export development strategy and policy package that would temporarily shield Africa from the full force of worldwide policy harmonization implicit in the trend towards globalization.

Ali A. Mazrui traces the process of globalization back to early explorations in 1498, when Vasco da Gama navigated the African coastline and opened links between Europe and Asia via the Indian Ocean. He examines centuries of interactions between Asian and African countries linked by the Indian Ocean, and highlights the religious, linguistic and architectural exchanges which resulted from such contacts.

Linda Y.C. Lim challenges the notion that the current economic crisis in Asia can be explained in terms of Western versus Asian models. Contending that both openness and statism have contributed to the Asian miracle and to the Asian meltdown, Professor Lim rejects current explanations of the Asian financial crisis, calling attention to the real causes that are more varied and complex, within the economic, political, social and cultural forces of each country.

The articles in this special issue of Cooperation South come from different disciplines, regions and perspectives. But they all share the view that globalization presents developing countries with new opportunities and challenges. We invite our readers to join us in the ongoing task of exploring ways by which the South can adjust and benefit from the emerging global transformations. ■

The South in an Era of Globalization

BY JOHN F.E. OHIORHENUAN*

Globalization has many faces — in trade, finance, investment and production systems. It affects development thinking and action, relegating ethical, equity and social concerns behind market considerations and reducing the autonomy of the state. Countries of the South need to come to terms with these phenomena by adjusting their development strategies. The writer is John F.E. Ohiorhenuan, Director of the Special Unit for Technical Cooperation among Developing Countries, United Nations Development Programme, New York.

NEXT TO EL NIÑO, globalization is, perhaps, the most widely discussed phenomenon today. Like El Niño, globalization occasionally manifests itself dramatically in its effects on the lives of ordinary people. But globalization is not just a destructive leviathan; it is also a powerful force for the improved material well-being of humankind. Dealing with the imperatives of globalization, capitalizing on its positives and mitigating its negatives is perhaps the most important challenge for the new millennium.

Although its effects are felt worldwide in various degrees, the notion of globalization is still not universally understood, and positions for or against are often taken on the basis of ideological leanings or gut feelings. As a first step, therefore, this article describes the main dimensions of globalization, providing a factual basis for analyzing its scope and effects. Countries of the South, in particular, need to come to terms fully with globalization in order to make the appropriate changes in their development agendas and strategies. This article also examines some of its implications for developing countries

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*** The views expressed here are the author's and not necessarily those of the United Nations. The assistance of Cosmas Gitta and Nand Bardouille in preparing this article is gratefully acknowledged.**

and raises some questions about its ramifications for the policy-making autonomy of the state.

THE ELEMENTS OF GLOBALIZATION

Globalization is first and foremost apprehended in economic and financial terms. In this sense, it may be defined as the broadening and deepening linkages of national economies into a worldwide market for goods, services and, especially, capital. As a result of changes in economic policy across a wide range of countries and a revolution in telecommunications and information technologies, the last fifteen years have witnessed dramatic increases in trade linkages and cross-border capital flows, as well as radical changes in form, structure and location of production.

Furthermore, due to developments in media technology and communication, globalization brings with it a growing tendency towards the universal homogenization of ideas, cultures, values and even lifestyles. In addition, running parallel with and even overarching the economic dynamics, there has been a growth of new supranational policy regimes such as the World Trade Organization (WTO), the Global Environmental Facility (GEF), and various global environmental conventions. There has also been a subtle realignment of older ones such as the Bretton Woods Institutions, the Organization for Economic Cooperation and Development (OECD), and even the United Nations.

TRADE

Over the last 40 years, world trade in goods and services has consistently grown more rapidly than world output. As a result, close to 20 per cent of the total volume of world output is exported. These exports are worth $7 trillion, or about 23 per cent of the value of world output. Developing countries account for just over 30 per cent of global exports. Manufactures now account for over 60 per cent of developing country exports, compared to 40 per cent only ten years ago.

However, the secular buoyancy of trade is not enjoyed equally by all regions. Asia and Latin America have had annual export growth rates of around 7 per cent and 5 per cent, respectively, over the last 25 years. But Africa has suffered an average annual decline of 1 per cent, and its share of world merchandise trade has fallen to about 2 per cent from around 6 per cent in the early 1980s. Latin America has maintained a share of about 5 per cent over this period, while Asia's share has increased significantly from about 16 per cent to 27 per cent.

FINANCE

Perhaps the most prominent face of globalization is the rapid integration of financial markets over the last decade. Innovations in communications and computer-mediated technologies have made possible a vast array of new financial instruments and risk-management technologies. In addition, fixed exchange rates were abandoned in the early 1970s, and financial markets were subsequently deregulated. The result has been a spectacular increase in cross-border capital flows. Cross-border transactions in bonds and equities were generally less than 10 per cent of GDP in 1980 for the major advanced economies; by 1996, they were generally over 100 per cent. The average daily turnover in foreign exchange markets, adjusted for local and cross-border double-counting, has risen sharply from about $15 billion in 1973 to about $200 billion in 1986, to over $1,300 billion in 1995.

The last 25 years have seen a sharp rise in the growth of portfolio equity flows, particularly to the so-called emerging markets. From nothing in 1970, portfolio equity flows to developing countries were estimated at $46 billion in 1996 and $33 billion in 1997, the downturn being mainly the result of the East Asian financial crisis. Regional variations are also quite sharp here, with Latin America and East Asia receiving 62 per cent of total portfolio equity flows to developing countries.

Even more significant for developing countries is the changing character of net long-term resource flows. First, private capital is now dominant, contributing 85 per cent in 1996 versus 45 pert cent in 1990. Second, portfolio flows constitute almost 30 per cent of total non-debt private capital flows, a manifestation of the growing importance of non-bank financial institutions (insurance companies, mutual and pension funds, etc.) as sources of development finance.

PRODUCTION

The global stock of foreign direct investment (FDI) was $3,233 billion in 1996, having grown at an annual average rate of 24 per cent in 1986-1990, and 17 per cent in 1991-1996. FDI inflows averaged about $28 billion in the 1970s, $50 billion in the first half of the 1980s, $142 billion in the second half, and $243 billion between 1991 and 1996. Here again, there are marked disparities by region. Africa's share of FDI inflows was only 1.4 per cent of global inflows in 1996, compared to 11 per cent for Latin America and the Caribbean, and 13 per cent for South-East Asia. Indeed, the bulk of FDI flows occurs among the high-income countries — about 63 per cent; and ten countries account for 78 per cent of the total developing country share.

The growth of FDI underscores the enormous role of Transnational Corporations (TNCs) in economic activity worldwide. The value of goods and services produced by foreign affiliates was estimated at $7,000 billion in 1995. Not surprisingly, production by TNCs is becoming the dominant mode of servicing foreign markets. With the dramatic fall in transport and communication costs over the last 40 years, firms are finding it efficient to locate different stages of production in different parts of the world. Foreign trade is becoming more and more intraindustry and intrafirm, especially for the advanced economies. The TNC has also become the quintessential vehicle for knowledge and technology transfer. Significantly, the global assets of TNCs were estimated at over $8,000 billion in 1994, compared to global gross domestic investment of $5,681 billion. The main features of TNC activity are presented in the box below.

Intrafirm trade is increasingly becoming the leading edge of foreign trade. For the US, for instance, intrafirm trade accounted for over 35 per cent of exports and 40 per cent of imports in 1995. The US Federal Trade Commission estimates that, between 1983 and 1992, intrafirm trade accounted for 43 per cent of US-Europe trade, and 71 per cent of US-Japan trade. With the evolution of the TNCs into a global network of interlocking activities, the nature of comparative advantage is changing from its old locational basis (country) to a new organizational basis (the firm). This development carries significant implications for the relationship between policy and market outcome.

Against the background of disenchantment with the results of 30 years of social engineering in developing countries, a "neoclassical counterrevolution" was launched in the late 1970s to reassert the virtues of the market.

GLOBALIZATION: SOME CRITICAL CONSIDERATIONS FOR THE SOUTH

The implications of globalization are not yet fully understood, even for the high-income economies. For countries of the South, the issues are considerably more complex because globalization is changing radically the parameters of the development agenda. Two questions seem to be fundamental for the South. First, is globalization rendering the notion of development redundant? Second, how does globalization affect the relative autonomy of the developing country state in national policy-making?

Globalization and the Idea of Development

From the earlier idea of development as growth, the prevailing paradigm insists on several qualifiers to drive home the notion that development is about people in social interaction and in interaction with other occupants of the planet. Hence: sustainable development; sustainable human development; environmentally sustainable development; equitable development, etc. With or without qualifiers, however, the idea of development is undergirded by the teleological philosophy that means are prefigured by ends; that development implies purposive action to get from an existing state to a desired state.

While globalization is not completely new, the current era is located firmly in the context of a new market fetishism. Against the background of disenchantment with the results of 30 years of social engineering in developing countries, a "neoclassical counterrevolution" was launched in the late 1970s to reassert

SOME FACTS ABOUT TRANSNATIONAL CORPORATIONS AND THE GLOBAL ECONOMY (1995)

- There are 39,000 TNCs, including 4,148 from developing countries. They have 270,000 affiliates, of which 119,765 are in developing countries.
- FDI stock at the end of 1995 was $2.7 trillion. Of this amount, 65 per cent was accounted for by France, Germany, Japan, the United Kingdom and the United States. Developing countries accounted for about 7.8 per cent of the worldwide FDI stock.
- The sales of foreign affiliates of TNCs in 1993 were estimated to be $6 trillion, compared with $4.7 trillion of world exports.
- China was the leading developing country recipient of FDI flows in 1995. South and South-East Asia received 65 per cent of the total flows to developing countries, and Latin America and the Caribbean 27 per cent of the total flows.
- The largest 100 TNCs (excluding those in banking and finance) are estimated to account for about one-third of global FDI.
- Worldwide cross-border mergers and acquisitions of all kinds doubled in value between 1988 and 1995, and accounted for 72 per cent of FDI outflows (42 per cent in the case of majority-held M&A transactions).
- 75 to 80 per cent of all FDI stock in 1992 was in sectors requiring above average levels of human skill, capital or technology intensity.
- 50 to 55 per cent of all FDI in 1992 was in the tertiary (service) sector.
- FDI and strategic alliances are growing faster than other forms of international transactions.
- Some 73 per cent of the stock of inward investment at the end of 1995 was in developed countries, though developing countries accounted for 32 per cent of all new FDI. Central and Eastern Europe accounted for almost 4 per cent of worldwide inflows of FDI in 1995.
- Over the period 1991-1994, FDI from privatization schemes in Central and Eastern Europe amounted to over $8.5 billion, or 49 per cent of the region's total FDI inflows. In the case of developing countries, privatizations amounted to $17.6 billion, or 6 per cent of their total FDI inflows in 1989-1994.

Source: Dunning, 1997.

How to engineer a new balance between the market and society? How to continue unleashing the creative energies of private entrepreneurship without eroding the social basis of cooperation?

the virtues of the market and the importance of "getting the prices right". With the collapse of communism, the triumph of market over state was complete. The resultant tendency towards ideological homogeneity considerably reduces the intellectual space for the consideration of ethical and equity issues in social interaction and international relations.

Implicitly, the new market fetishism is elevating the notion of self-interest as the basis of market rationality to a "take-no-prisoners" attitude in interpersonal and intercountry relations. The contemporary manifestation of market liberalism, in its pursuit of pure commercialism, appears to leave little room for charity or the generosity of spirit that used to be taken for granted as the essence of civilized behaviour. With no constraints beyond the ethics of respect for property rights, the post-cold-war market ideology justifies predatory behaviour as the natural tendency of humankind.

Despite the genuine concern of the international development community with the existential conditions of people in developing countries, the Darwinian logic of the market is also increasingly reflected in the discourse on development cooperation. In debates at the United Nations, powerful countries argue that the end of the cold war has made any North-South distinction basically irrelevant, as such distinctions were merely a reflection of the cold war ideological divide. The New World, they argue, is one of "partnership", and each country is wholly responsible for its own destiny. But this new partnership is essentially a quid pro quo relationship except, perhaps, in purely humanitarian causes.

The declining level of Official Development Assistance (ODA) over the last decade is, at least partly, a result of the growing perception that development assistance is anachronistic. It may also be argued that the increasing powers of those multilateral institutions with a one-dollar, one-vote decision-making mechanism, and the corresponding weakening of those with a one-country, one-vote mechanism is symptomatic of an unabashed acceptance of plutocracy as a morally acceptable basis of global governance.

In the context of the high-income countries, Dani Rodrik makes an eloquent case for the reaffirmation of the "social insurance" role of governments. In his words: "Globalization .... is part of a broader trend that we may call marketization. The broader challenge for the 21st century is to engineer a new balance between market and society, one that will continue to unleash the creative energies of private entrepreneurship without eroding the social basis of cooperation."

Development cooperation is in many ways the international relations analogue of social insurance. Just as social insurance has historically facilitated trade integration and multilateral liberalization, so too has development cooperation helped to foster world peace (precarious as it may be). The phenomenon of declining ODA and the growing impatience with the endemic problems of developing countries is, perhaps, a logical outcome of globalization. But it would be myopic to forget that globalization by its nature tends to generate international market failures because it is uneven in intensity and scope and because it impacts differently on different classes of people.

Globalization and the Relative Autonomy of the Developing State

In Adam Smith's famous formulation, the pursuit of individual self-interest produces the best good for society. Advocates of the new market liberalism often go back to Smith as the oracle. It is often forgotten, however, that Smith was emphatic in portraying "large combinations of capital" as contradicting the realization of market efficiency. More significantly, perhaps, it is often neglected that Smith's distrust of the state was mainly because he saw it as an institutional manifestation of the conspiracy of the rich and/or propertied against the poor and/or propertyless. He did expect the state to provide an enabling institutional and infrastructural framework, and it is this dimension of his work that is said to justify the notion of a minimalist state.

However, the evolution of the state in the high-income countries has seen the full acceptance of its role in providing the social overhead capital that is necessary for the market to function reasonably effectively. Accordingly, while there may have been debate as to the neutrality or autonomy of the state (i.e. the extent to which it is a register of the balance of social forces), there was no serious questioning of its role in mediating internal social conflict, whether negatively (as in repression) or positively (as in the provision of social services and safety nets). It was also broadly accepted that the state has preeminence in mediating between the domestic and external domains.

Globalization fundamentally challenges the mediative role of the state vis-à-vis external pressures. The combined effect of the global fluidity of finance capital, the growth of FDI, and the emergence of global corporations is to undermine the economic sovereignty of states. Vincent Cable describes how highly mobile capital leads national regulators to cede control to global markets that are wholly unregulated (currency markets), lightly self-regulated (bond markets), or imperfectly regulated (...multinational banking ...). (Cable, 1995)

For instance, the management of exchange rates depends less directly now on government action than on the action of foreign exchange and securities traders. The recent experience of some

East Asian economies and of Mexico in 1994 shows what can happen when international finance decides to pull out for whatever reason.

While international trade as an element of globalization is, perhaps, less spectacular than finance, it is in this area that the new constraints on the state are most visibly demonstrated. Globalization is market-driven, but, in the area of trade, it is clear that the process is significantly facilitated by the actions of states. The establishment of the rules-based multilateral trade regime embodied in the WTO is the result of a process where the leading actors are government officials. The whole process engenders a tension, identified by Cable and Rodrick among others, between countries over domestic norms and social institutions. The main point for the developing country, however, is that the ability to take advantage of (or create) opportunities and mitigate threats is a function of the capacity and discretionary power of the state.

By broadening the notion of trade into trade-related issues, the Uruguay Round moved critical issues of economic policy such as foreign investment, intellectual property, technology, technical, health and safety standards, and a broad range of services onto the platform of international trade relations. It is of particular concern to developing countries that negotiations tend to be heavily influenced by the powerful countries.

The rules-based trade regime imposes an additional burden on the countries of the South to build national capacity to project and protect national interests and to be more effective negotiators; developing the capacity to comply with agreed obligations and exercise their rights; and putting in place a whole panoply of new institutional arrangements in order to be more competitive.

The declining autonomy of the state is not unique to developing countries. For instance, in the high-income countries, governments are under pressure to help their citizens adjust to the changes brought about by globalization, even as the tax base to support public consumption is eroded by the imperatives of competitiveness. The difficulty of taxing increasingly footloose capital combined with the need to maintain comparative (low) taxation levels tends to shrink the fiscal base. It is possible, as Cable observes, to resort to higher levels of deficit financing. But this strategy "is eventually circumscribed by international financial markets: which foreign investors are willing to lend and on what terms".

For the developing country, the problem is compounded by the fact that the notion of an activist state (which is required to establish safety nets and lead the development process) is passé intellectually and infeasible practically. Intellectually, the activist state is incompatible with the ideology of liberalization. Historically, the activist state has relied heavily on domestic and external resources for which it did not always pay full market value. It also requires an international policy context which allows considerable variation in development strategies and domestic policy regimes among countries.

The Managing Director of the IMF, in describing his organization's prescription for the "second generation" of reform, highlights implicitly the enormity of the challenge for developing countries. The four core elements of this policy regime — better fiscal adjustment, "bolder" structural reforms, better government and strengthened finances — all require a highly competent state machinery. Better fiscal adjustment includes reducing budget deficits and changing the composition of government expenditure: improving education and training, reforming pension schemes and health care delivery, and providing social safety nets. "Bolder" structural reforms means securing a smaller, better paid and more efficient civil service, undertaking extensive labour market as well as trade and regulatory reforms, and creating/reinforcing property rights regimes. Better government means improving transparency and accountability as well as ensuring reliable public services. Strengthening domestic financial institutions implies establishing appropriate prudential and oversight mechanisms.

Even this minimalist agenda shows quite clearly that, in Dunning's words, markets are not a free good; they cost resources to set up, to operate and to maintain. The major challenge for the developing country is to find the resources to ensure a reasonably competent state, and the resources to set up and maintain reasonably effective markets at the same time that the traditional providers of these resources are threatened by the forces of globalization.

CONCLUSION

The last four decades have witnessed increasing differentiation among the large group of countries designated as developing. Indeed, a few of them are almost fully integrated into the globalized economy. Most of them, however, are still marginal players. To be effective participants, these countries need to understand fully the new opportunities globalization brings and the new constraints it imposes on the development process.

The first issue addressed here is that globalization seems to make the idea of development redundant. It would appear that, on the logic of marketization, development and, by extension, development cooperation are anachronistic. But it would be self-defeating in the long run if the values of equity, fairness and civilized behaviour were sacrificed on the altar of globalization.

The second issue relates to the relative autonomy of the developing country state. Globalization threatens the discretion of the state everywhere. But the more developed the country, the more robust is the response mechanism of the state. For the developing country, the challenge is to be able to retain the idea of an activist state, even while recognizing that the new activism must be different from the *dirigisme* of the 1960s and 1970s. The challenge for the international community is to recognize that development requires an exceptional combination of circumstances and to provide the space for each developing country to find its own exceptionality. ■

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Cultural Globalization: Living on a Frontierless Land

BY NADINE GORDIMER

If culture is globalizing, the aim should be to value creativity and differences across all aesthetic frontiers, with no hierarchy of so-called "world languages" directing it. And special effort is needed to tap the world of South-South opportunities and affinities that the colonial era ignored and denied. Nadine Gordimer, winner of the 1991 Nobel Prize in Literature, calls for energetic "cross-translations" of literature, cultural exchange visits, and two-way connections among neighboring, continental and interregional countries.

"Process noun, GLOCALIZATION. Formed by telescoping *global* and *local* to make a blend; the idea is modelled on Japanese *dochakuka* (derived from *dochaku*, "living on one's own land"), originally the agricultural principle of adapting one's farming techniques to local conditions, but also adopted in Japanese business...for *global localization*, a global outlook adapted to local conditions. The idea of going for the world market (global marketing) was a feature of business thinking in the early 1980s. By the late 1980s and early 1990s, Western companies had observed the success of Japanese firms in doing this, while at the same time exploiting local conditions as well." —*The Oxford Dictionary of New Words, published 1991.*

That is the etymology of the word which is not yet recorded in that dictionary, *Globalization*. But there is always something to learn from the way a term such as this one, now widely and unthinkingly used by us all, has been derived. Then we shall at least know, by its origins, exactly what we're talking about. The term has emerged out of need for the expression of political, economic, social and cultural changes. It's an omnibus term, of course, not only carrying its variety of passenger interests, but travelling to and through different terrains. The best-known and accepted of these is, indeed, that for which the term was coined, while elaborating on its original limitations in Japanese understanding: the expansion of trade over the oceans and air space, beyond traditional alliances which were restricted by old political spheres of influence, particularly in the era of colonialism, and by the barriers of the Cold War. Now there are new formations hiding behind the acronyms of new groupings of countries on the world terrain of trade, but at the same time other barriers, important ones, are being breached. One has only to glance round at the occupants of business-class seats in aircraft to see the flying caravan (I change metaphors) of government trade missions, industrialists and merchants, busy at their laptops in preparation for presentations that will vend—more valuable than spices ever were—minerals and commodities, industrial, mining and communications plants, and—yes—arms, at the worldwide oases of buyers, who in turn will have something to sell: resources natural or manufactured, which the traders lack back home.

Does the globalization of culture follow the same process?

On the principle of opening up the bounty of our world, ill-distributed as it has been by both nature and humans, it does. Both are gathered under the rubric of human development, which is now understood as not achievable in isolaion by any one country or even groupng of countries—a down-to-earth acceptance that we cannot come closer han this to the idealistic (and ideologial) concept of one world, which some of us are old enough to remember nostalgically. But the great difference is that culture is a 'trade' foremost in intangibles, not materials and money, and it is, paradoxically, both its power and its weakness that it is only partially dependent on the exchange of money in order to operate. In its essence, much of real culture as opposed to the exploitation of culture as a billboard, TV slot public relations commodity, has no market value. The exceptions, anyone will be quick to point out, are the popular music groups and individual musicians, arising in their home countries genuinely from the people's culture rather than any elite, who are celebrated and highly paid, while at the same time making the musical heritage of their own countries known and appreciated all over the world. But writers who come from, let us say, Canada, Norway, Cuba, Egypt, to a poetry conference in Australia, dancers who come from Japan, India, the USA, Spain, to a workshop in Ghana—their 'rate of exchange' is the expansion of ideas, the possibilities of their art, as coming from the life and spirit of the Other, the unknown country and society. No material benefit is involved beyond the staples of an airfare, food and lodging... The concept of selling and buying as a principle of globalization does not apply. The ethic of mutual enrichment without consideration of material profit is that of cultural globalization; by the very nature of trade globalization of the world's material resources, this ethic is secondary to it.

Once one moves into the dimension of ethics, many questions present themselves. First, one must examine what the aim of globalization of culture is, or to be more didactic, should be. Is it, in the attempt to heal the peoples of the world in their wounding division and the manifestations of xenophobia that underlie conflict, an aim of emphasizing the unity, the *oneness* of cultural expression? Therefore a conformity, even if of the highest order? A tactic to avoid value judgments of which is the highest art form among those achieved nationally, judgments influenced by the nature of what is regarded as culture in the countries making such judgments? Or is the aim to *value the differences*, bring them into play across aesthetic frontiers and thus disprove the long-held sovereignty of national and political divisions over the development of human potential?

Most of us would agree the aim is the latter. Yet each answer brings another question; immediately, this is the question of language, since language is the means of many cultural activities, corollary to the great one of literature itself. It is vital to that field of mixed media, the image and the spoken word, in the theatre and the theatre's international extension, TV drama. Intellectual debate depends on language, although the exchange of ideas and insight comes without need of words in the revelation of paintings and music. Care has to be taken, however, that one or two of the short list of self-styled world languages do not become decisive in our reach for globalization of culture. This would be a subconscious lapse into the very state which the concept of freeing culture seeks to end: a value decision that high culture, true culture resides within those international 'families' allied by language affiliations (Romance languages, for example), shared frontiers decided after old wars, political alignments and realignments, ideological loyalties. The short list cannot be justified on account of a number of speakers of a language, since Chinese and Arabic don't feature on it. Of course they don't; and why? Because it is out of the old conditioning of Western culture, 'the formidable structure of cultural domination' Edward Said cites, that much of the drive towards cultural globalization, creativity freed to roam and procreate, has come; old habits engender autocratic attitudes that die hard!

Care has to be taken, however, that one or two of the short list of self-styled world languages do not become decisive in our reach for globalization of culture.

As one of the speakers and writers of one of those 'world languages', am I advocating that globalization means everyone must learn Chinese in order for this to be realized? Hardly a feasible condition, even if desirable. No doubt the Chinese, along with the Arabs, the Japanese and others will have to learn English, French, German and Spanish as they are already doing, perforce, in pursuit of the *other* form of globalization, trade and technology. As for the peoples of Africa, they are already long accustomed to the imperative of learning the languages of the Western countries under whose colonial rule they have lived. But if cultural globalization is to be more than another failed One World, it must be conceived genuinely broadly, in active cognition that there should be no hierarchy of languages directing it.

Going beyond such statements, what practical steps can be suggested for tackling this huge problem of words?

Since literature is the heavy-duty vehicle of the Word, carrying a large freight of culture, cross-translation of the literature of the languages of the world is an important part of the answer. This requires co-operation between publishing houses worldwide, in reciprocal publication of works of fiction, poetry, drama, and general prose beyond the category of journalism—this last reaches most peoples and languages through the international networks of translation in newspapers and on television newscasts. The departments of Culture in governments have a neglected responsibility, in terms of the extension of their *own* countries' cultures, to subsidize such publication, and, indeed, it must be seen not as some luxury subvention, but recognized also by the Departments of Foreign Affairs as a logical part of their function in developing peaceful, fruitful and progressive relations with other countries: allocation from Foreign Affairs' budgets should be mandatory.

Exchange visits of writers, artists, dramatists, film makers, composers, musicians, dancers—every means of expression of the arts have been growing, but although the embassies of many countries are helpful in funding these on behalf of their nationals, many, many more exchanges are needed to give practitioners of the arts the chance to enrich one another's ability and spread creative variety and innovation. Diseases, alas, are pandemic; in our world on the eve of the new millennium, art is not. Again, subvention from governments and business—the brothers and sisters from *their* side of the globalization process, international trade—is imperative if cultural globalization is to be achievable.

How, in national specificity, does each country go about moving beyond itself to procreate a culture that will benefit self and others? In some cases, the effort must begin at home: on the country's own continent. If I single out my own country, South Africa, it is not only as personal special interest, but because South Africa was *the* example, the epitome of cultural isolation, suffered until apartheid was defeated by the liberation movements and a government of national unity, led by the African National Congress, was formed in 1994. Economic sanctions and cultural boycotts, which were stoically endured as necessary to end the apartheid regime, meant for the cultural community that we were cut off not only from Europe and the Americas, but also from the rest of the continent to which we belong, even countries of some of our closest neighbours. Our first action, therefore, has been the fulfilling one of inviting our African counterparts around us to bring their culture to our country, and to take up return visits to theirs. Isolation from our own continent predated, in fact, that of the apartheid era. Preceding it, there was cultural domination of the North-south axis, imposed by colonisation-cum-Europeanisation (the latter persisted even when South Africa was no longer a British colony, but the white-ruled independent Union of South Africa). This meant that cultural connections were with Europe and North America almost exclusively: their literature, their theatre, their music and plastic arts. The arts of the continent to which we belonged were relegated to the anthropology departments of universities.

From our new establishment of connection with the *creativity of our African selfhood* we also have begun to move out of the restriction of North-South culture, invaluable though it remains, into the cultural collective, to profit from the untapped South-South opportunities and—above all—affinities, that Eurocentric colonial attitudes ignored and denied us. South African writers and artists are exchanging working visits with their counterparts in Brazil, Argentina, Uruguay, Chile and Cuba, among other countries on the side of the world that matches our own, not least in the presence of the descendants of Africans who, enslaved, yet took eternal elements of African culture with them.

Globalization is a circular, not a linear concept; the very root of the word implies this shape of wholeness, at once a setting forth and receiving in one continuous movement.

This South-South initiative, now only in its beginnings, is surely something that Europe and North America could pursue along with us, rather more vigorously than it appears they do, set within their cultural parameters, for even the riches of Western culture are limiting, in the context of a global culture.

Globalization is a circular, not a linear concept; the very root of the word implies this shape of wholeness, at once a setting forth and receiving in one continuous movement.

And in confirmation of this, I find myself returned to what perhaps should have been my beginning: what do we mean by 'culture'? I have assumed the mandate of my subject was culture-as-the-arts, inclusive of the crafts. But culture has many definitions, constantly argued. For some people, it would include, for example, the cultural implications of food—I think of Claude Lévy-Strauss's splendid exegesis, 'The Raw and the Cooked'. Mores and manners, too, are accultured; above all, technology invades—shades into?—culture of the arts when, as now, people engage in cultural exchange of a kind, in the contradictory isolation, alone with a screen, through texts and graphics conjured up on the internet. There is even a lyricism of international internet jargon—its basic procedure is known by the poetic verbal imagery 'surfing the net'. Is this a globalization of poetry on a scale previously unimaginable, or a sign of the global subsumption of the arts in the unquestionable, already achieved globalization of electronics?

When we speak of the globalization of culture, North, South, East, West, we have still to decide what these other parameters of it are. Only then can we make reality of culture 'living on its own land': the frontierless territory of creativity. ■

Globalization of Mass Media:

OPPORTUNITIES AND CHALLENGES FOR THE SOUTH

BY HAMID MOWLANA*

Does the globalization of media and communication help developing countries "leapfrog" into the information age, improve access to technology, speed development, and contribute to global understanding, equality and harmony? Or does it discredit indigenous cultures, knowledge and experience, sometimes proven over centuries, undermine national economic and political independence, and generate worse international disparities? These questions are weighed by Professor Hamid Mowlana, Director of the International Service at The American University.

With the approaching twenty-first century, new technologies and the "information revolution" are bringing our world closer together and making nations, economies and cultures increasingly interdependent. This process of "globalization" is often portrayed as a positive force which is unifying widely different societies, integrating them into a "global village", and enriching all in the process. It is variously described as an inevitable by-product of human evolution and progress, as if it were an organic process, governed by the laws of nature.

However, globalization is not necessarily a natural progression emerging out of the ordinary communication and interaction of people and cultures around the world. Rather, it results from deliberate human choice by a powerful group of nations, transnational corporations (TNCs) and international organizations which have stakes in the process. The new communications and information technologies have provided methods for large corporations to maximize profits by entering foreign markets. They have also given nation-states reason to re-examine the strategic implications of

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globalization for their national economic and political development.

Globalization is a complex phenomenon, marked by two opposing forces. On the one hand, it is characterized by massive economic expansion and technological innovation. On the other hand, there is increased inequality, cultural and social tumult, and individual alienation. Globalization of mass media is an integral part of this phenomenon and is propelled by the same ideologies, organizations and forces. In turn, the digital revolution and the introduction of new communications technologies are redefining our notions of politics and the structures of power in society. Increasingly, power resides in the hands of those who can produce, control and disseminate information most effectively. Human communication is increasing exponentially in amount and variety and is covering greater distances in shorter time.

This proliferation of communications technologies and the increased global interdependence it creates are often erroneously viewed as directly contributing to global understanding, equality and harmony. However, as many scholars have pointed out, an increase in electronic communication does not necessarily mean an increase in human communication and cooperation. In fact, many suggest that it leads to the replacement of traditional structures such as the family, religion and the community with ones supposedly more relevant to the modern world: the mass media, the nation-state, and the global economy. As these new systems emerge, they in turn reinforce the globalization process and provide channels for governments, transnational corporations and media distributors to communicate and expand their power and resource base. Thus, globalization is both a prerequisite for and a cause of the development of communications industries.

THE MEANING OF GLOBALIZATION

This shift from the "local" to the "global" is being portrayed as an innocuous effect of human progress and beneficial to all involved. For example, the 1993 U.S. Department of Commerce Report on the Globalization of the Mass Media states that liberalization and internationalization of media markets is improving "the economic welfare of all countries" (Department of Commerce: 1993, viii). If we believe this, we tend to see the process as beyond our control and allow corporations and governments to minimize their roles. This particular view, actively perpetuated by transnationals benefitting from the process, guides the forces and strategies directing globalization. Interestingly, both the North and the South see globalization as commercial enterprises increasing their activities across national boundaries, providing opportunities for international trade, and simultaneously spreading their cultural and societal values. This description is accurate, but it does not explore any of the larger societal and cultural implications for countries in the South, nor the implications for equity and democracy within the industrialized world. The assumption is that such international trade will eventually "trickle down" to individuals.

It has also been suggested that the new communications technologies and media are spreading the existing structures and values which are dominant globally and emphasize the free-market economy and a capitalist liberal democracy. In this perspective, the climate of privatization, deregulation and commercialization which exists in the United States is actively being replicated across the world, in order to facilitate international commercial ventures.

The marked increase in transportation technologies in recent decades has brought increased travel and opportunities for trade. The spread of direct broadcast satellite (DBS) and mass media has also served to break down barriers to communications and international commerce, and to make it more difficult for governments and regulatory bodies to protect their cultures and societies.

What we are observing as a process of globalization may find its roots in the early development projects and theories which emerged at the end of World War II under such international aid programmes as the Marshall Plan. These programmes promoted the process of development which came to be known as modernization. Modernization theory sees communications and mass media as a necessary precursor to economic growth and social change. This theory also emphasizes the connection between media expansion and institution-building, political stability, and economic growth. Thus, it has helped to perpetuate the widespread assumption that broadcast television and radio helps nations "leapfrog" into the information age. According to this dominant view of nation-building, the mass media are a major component in fostering economic, political and social development. They are cited as methods for helping to spread democratic ideals, increase political participation, create feelings of community, build national unity and loyalty, facilitate informed self-government, and enable participation in the new information society.

This assumed connection between media and development is still governing the development process today, and is now being influenced heavily by the aggressive corporate culture of transnationals. The philosophies, goals and economic approaches of these new commercial enterprises are often entering development agencies and strongly influencing the development process. The new, powerful satellite technology has hastened this process. It gives TNCs the means to bypass national regulations and boundaries and get foreign programming and information into countries which had previously tried to limit foreign messages. As these commercial enterprises expand their market shares internationally, they are gaining power and influence over governments worldwide, as well as over international regulatory bodies like the ITU, GATT and UN agencies.

At a recent conference at Carleton University in Ottawa, Professor Jeremy Tunstall of the City University of London described the current trend of corporate expansion and market integration. He warned that this process was further centralizing communications industries around the world and impacting the free flow of information around the globe (Tunstall: 1998). Since the 1996 Telecommunications Act was passed in the United States, signifying a huge change in U.S. communications policy, there has been an explosion of transnational mergers and acquisitions. Companies like Disney, Viacom and Time-Warner have diversified their media holdings, bought television networks, movie production houses, cable channels and other media enterprises. Thus, they own both the means of production and distribution, further concentrating the media outlets and the information we receive via the mass media.

Tunstall describes the phenomenon of "Hollyweb". In this process, Hollywood production companies are acquiring television networks, cable channels, and TV stations and are branching out into such areas as theme parks, music production and publishing. The magic word in the U.S. media now is "vertical", where production and distribution companies are allowed to own these various types of networks, channels and television stations. Here, Washington views its role as supporting the U.S. commercial media, encouraging competition, discouraging the elements of monopoly, and thereby boosting the financial bases of the media in general, and Hollywood in particular. Tunstall views Anglo-American cooperation and alliances as an important step in the development of media conglomerates worldwide; a look at the global television lineup is a case in point (see box below).

Similar patterns of global conglomerates can be seen in the advertising industry, which had annual billings of $125 billion in 1996. They included such companies as Omnicom Group, WPP Group, Interpublic Group of Companies, Young and Rubicam, True North Communications, Grey Advertising, and Hakuhodo, with corporate headquarters in the U.S., London and Japan.

Globalization of the mass media should also be viewed in the context of its demographic constituencies—an aspect often left to the sidelines in our discourse. Within the next few decades, the populations of China and India combined will constitute almost half of humanity. This demographic shift no doubt will be an important factor in determining the geographical and economic basis of the market, as well as the major conglomerates involved in the mass media. The rapid expansion of the

GLOBAL TELEVISION CONGLOMERATES

Network or outlet subscribers	Corporate entity worldwide	Household
BBC Word Network	British Broadcasting Corp.	50 million
Cartoon Network	Time Warner	140.5 million
CNN-International	Time Warner	181.9 million
Discovery Channel	Discovery Communications	125.9 million
ESPN	Walt-Disney Company and Hearst Corporation	250 million
MTV Networks	Viacom	310 million
NBC Network	National Broadcasting Corp.	200 million
Sci-Fi Channel	USA Networks International	59.8 million

mass media is based on the assumption that information is inherently neutral. This idea has been greatly magnified by organizations and companies which have a stake in the globalization process, and it ignores the important role that cultural and social values play in shaping information. The choices made every day by government officials, network executives and media producers and distributors determine what topics are covered, what information is selected and the way it is portrayed. The simple choice of one story over another is as much a political choice as it is economic and professional. It determines what becomes part of our national consciousness and what values and ideas take precedence in the general public. The choices made by the media and their producers are always a function of their own individual beliefs, but, more important, they reflect cultural, societal and national values and identity.

Overwhelmingly, the mass media promise that globalization will bring friendship, harmony and international cooperation. The mass media are viewed as a means to increase diversity, democracy and empower the individual. However, beneath the overly optimistic image of global cooperation and sharing lies a side of globalization which is generally ignored by the media. There are many unintended and unpredicted side-effects of the information revolution and the spread of mass media. Few if any of the early modernization theorists predicted the political apathy, increased alienation and dissolution of community and family life which have been widely noted in the industrialized world. Still, the media are often cited as contributing to increased government transparency and democratic participation by playing the role of a "watch-dog", pressuring politicians and other leaders into being accountable to their fellow citizens.

Despite this continuing faith in the positive impact of the media, many people are becoming cynical and apathetic about the impact of media and their role in society. The press appears to be losing credibility, and is often criticized as overly preoccupied with appearances, celebrity and wealth, as well as generating new media factions, such as the tabloid press, or the "stalkarazzi". More important, there is concern emerging over the freedom of the press, and many believe it to be subject to manipulation by government, advertising, and other powerful institutions in society. And yet, globalization is often portrayed as a way to increase the diversity and the richness of our culture by adding to the variety of information circulating in the media outlets. It is assumed that the more television channels we have, the more diverse is the information we receive.

However, this idea is grossly exaggerated at best, as the global media are often dominated by western products and Hollywood values. The information transmitted through American television and movies is mostly "info-tainment" and advertising. The promises that the mass media transmit information necessary for improved political participation and socio-economic development are increasingly seen with skepticism. In the United States, many people complain of a startling lack of diversity on television and in the print media. In fact, the proliferation of television and cable channels which was supposed to generate variety and consumer choice has churned out an astounding number of programmes on a surprisingly small range of topics. The media portray a very limited and excessively violent view of the world.

There is a type of "silent censorship", where centralization has limited the information able to penetrate through the media gatekeepers. This concentration of media control has also allowed for very few criticisms of the establishment in the media. Criticizing the dominant view of globalization and rapid commercial and technological expansion, or suggesting alternatives, is portrayed as reactionary or "un-business". In fact, communications scholars have found that in the industrialized world, there is a growing dependence on media which is proving to be quite harmful. There seems to be an almost blind faith in "the new", "the modern" and technological solutions to problems, and a subsequent devaluing of traditional values and structures, no matter how valuable they have proved to be over centuries. People are surprisingly quick to reject their indigenous traditions and cultural values as reactionary, static and irrelevant to their lives. Instead, they turn to global television, MTV and Coca-Cola (Mowlana: 1996, 108) and place high value on foreign innovation, commercial products and experts.

The most prevalent assumption underlying the process of globalization is that an unfettered free market, fierce competition between companies, and a free flow of information will deliver the greatest good for the greatest number of people. Adam Smith's "invisible hand" is supposed to determine the flow of information and the future path of the world economy. However, this idea has been transformed to mean the free flow of commercial information and expression. Since the sole motivation of transnational corporations is to maximize their profits and build demand for their products and services, should commercial expression and advertising be the only kind allowed to flourish and to flow freely? Should economic efficiency be our highest priority, and does corporate competition deliver the greatest good for individuals?

David Korten, President of the People-Centered Development Forum in the United States, suggests that we re-examine Adam Smith's notion of the free market as applied to the global flow of information and communications to more accurately reflect the reality of our global village. Smith's vision emerged in a much different world, where small, locally-owned businesses were encouraged to flourish and compete with each other to be responsive to the needs of individuals in the community. Today, businesses, government structures and international agencies have become so large that they are no longer directly responsive and accountable to the needs and desires of the people they are supposed to serve (Korten: 1996, 187). As the media continue to centralize, while simultaneously serving a wider audience, it becomes more difficult for the individual to influence the substance and the systems through which information is produced and distributed. Thus, Korten warns, individuals have less ability to impact the policies, goals and directions of their social, economic and political institutions (Korten: 1996, 186).

GLOBALIZATION AND MEDIA POLICIES IN THE NORTH

According to the 1993 U.S. Department of Commerce report on the globalization of the mass media, the United States has a marked advantage in this process, and is having a remarkable impact in the liberalization of markets internationally (U.S. Department of Commerce: 1993, 3). In fact, Joseph Nye, Director of the Kennedy School of Government at Harvard University and former advisor to the Clinton Administration, cites that America's "information edge" has granted it the position of world leader, and predicts that this edge will make the twenty-first century "America's century" (Nye: 1996, 21).

Ironically, however, communications policies in the United States are surprisingly protectionist, considering the vehement advocacy in the U.S. for an unfettered global free market. Less than 2 per cent of American television is foreign. Exports of American television, film and video products are $2.1 billion dollars greater than U.S. imports of foreign cultural products (U.S. Department of Commerce: 1993, viii). Communication policies are stringent regarding foreign penetration into the domestic market. The communications acts of 1912 and 1927 installed strict regulations on foreign ownership of broadcast and other communications industries in order to protect American national integrity and security. The FCC did not grant licenses to companies whose parent companies were more than 25 per cent foreign-owned. It is ironic that today, when other governments have such policies, the U.S. government describes them as protectionist and xenophobic, and encourages other governments to move more towards a free-market economy.

The new world information and communications order today is being "liberalized" at an unprecedented rate in the U.S. and in the South. Since 1988, there has been an explosion of transnational mergers and acquisitions. In 1996, a new communications act was passed in the U.S. government. It relaxed regulations so as to encourage the convergence of the telecommunication, computer, and television industries, creating the so-called National Information Infrastructure (NII) or "information superhighway". This was followed by the Global Information Infrastructure (GII) of the European Union, which in great part replicated the framework of NII. This convergence of technologies and alliances means that the prevailing information infrastructure is designed mainly by a small number of sources—and this process of vertical integration is a central part of globalization.

The globalization of international markets and the power of U.S. communication industries are generating increased concern around the world about issues of cultural sovereignty and the right to self-determination. An example from the realm of cultural industries, publishing, illustrates the nature of the phenomenon of globalization. While book production has increased 40 per cent worldwide from 1983 to 1994, there is still a severe shortage of educational and scholarly texts in much of the world (Mowlana: 1997a, 91-2). For example, due to this inequality, countries of the South import much of their materials from the industrialized nations. Not only are the materials reaching the South limited, but the texts chosen for publishing in the U.S. are severely limited by their marketing potential (Binder: 1996, 35). Diversity is lacking in published works because the large conglomerates controlling the industry do not have competition. To further complicate the issue, chain bookstores have the market power to dictate the nonscholarly texts available, giving them influence over the publishing houses. Similarly, television and film distribution are managed by large conglomerates which create marketable, not necessarily quality, material.

Many countries in the North, including France and Canada, as well as nations of the South such as Indonesia and Singapore, are looking for communications policies which will ensure the national integrity and unity of their nations. For example, Canada's communications policies have been concerned with issues of cultural, linguistic and national identity and diversity for decades because its population is very multicultural and spread over a large geographic area. The government has participated directly in the media since broadcasting began in the early 1920s, on the premise that political sovereignty and unity are directly linked to communications and culture. The Canadian Broadcasting Corporation (CBC) was founded to promote Canadian identity and community, despite cultural and linguistic differences.

Unlike the American "melting pot" concept, Canadian policies were designed not only to promote national unity, but also to strengthen and validate the myriad cultural backgrounds present in Canada. There has been continued government support and funding for the mass media and cultural production. All media are expected to have at least 64 per cent "Canadian" content, and there are policies to make the media more representative of Canada's diverse population, including women, Francophones, indigenous people and other minorities.

However, the multicultural policies have been nearly impossible to enforce and had negligible impact on mainstream media. Creating separate French and English communications industries has not built bilingual national identity, but two separate identities. Flourishing Quebec media and cultural industries have strengthened Quebec culture, nationalism and identity, but also deepened Anglophone/Francophone divisions, perhaps contributing to the dramatic referendum in 1996.

Canada is not alone in its response to globalization and its search for self-determination. Time has proven that commercial mass media rarely meet the needs of all people, especially minorities. Laws and policies governing communications must allow the creation of a space for those not represented in mainstream media. The United Nations World Television Forum in November 1997 warned that mainstream programming must take into account the constantly changing demographics of our world and address both majority and minority interests. Because commercial media take mass appeal and economic incentives as main determinants of what they programme, they will rarely reflect the far more complex and diverse needs of smaller groups and individuals.

The European Union's audiovisual policy issued in 1989 was another instance of reaction to globalization. The policy included three steps—to promote national and regional broadcasting, foster European communications capabilities, and serve as guarding principles against the onslaught of the American media. Following the EC directives, France acted to aid the

French movie industry with subsidies, protect it from the American influence, and impose quotas on American audiovisual products. French officials claimed they were, in essence, preserving and protecting French culture. This debate was also carried into trade negotiations in the General Agreement on Trade and Tariffs (GATT), now the World Trade Organization (WTO), as a contentious matter between the U.S. and France. The tension between the two parties was resolved only by accepting the French demand for "cultural exception" of any audiovisual trade from WTO rules (Singer: 1994, 55).

GLOBALIZATION AND THE RESPONSE OF THE SOUTH

Against the new backdrop of globalization and development of mass media, the South faces both opportunities and challenges. These may best be examined by tracing the four trends of (1) ethnicization of mass media, (2) development of alternative media, (3) design of comprehensive policies, and (4) internationalization of the mass media within the South. Many countries in the South are concerned with bolstering their national identity and strengthening their role in the globalization of media and technology. They recognize that information and communications are increasingly the source of power in our world today, and those who cannot compete effectively in the communications and information sectors will suffer both economically and culturally.

Indonesia, which launched its own communications satellite in the 1960s, is a case in point. The Indonesian government not only desired to use satellite technology for its telecommunications infrastructure, but wanted to minimize as much as possible the impact of foreign, particularly western, broadcast television on its population. In response to global economic pressures, the Indonesian government began to privatize communications industries, seemingly to improve communication contents and infrastructure. However, these steps did not necessarily improve democratic participation, as demonstrated by the events of the early part of 1998. Indonesian television and radio industries came to be run by the government, and thus came to serve as a means of reinforcing the status quo (Beng-Huat: 1997, 242).

The process of globalization is also leading to change in the very nature of communication in societies where traditional media were the sole means of communication. In a small Kazakh village (Werner: 1997), social relationships were built on the giving and receiving of gifts (such as camels, sheep, cars) and attendance at feasts. These displays of generosity, often in excess, were part of the social structure based upon reciprocity, and contributed to strong family ties, social networks and communication. The collapse of the Soviet Union and the advent of privatization and capitalism brought a sharp drop in village living standards, a decline in traditional gift-giving, simultaneous straining of older social networks, and a breakdown of traditional communication channels. As a result, the Kazakhs as described above, as well as a plethora of other ethnic groups across the globe, are having to adapt and create new modes of communication as globalization continues to lessen cultural isolation.

The systems governing communications today, though varied, are mainly those seeking to maximize profits, leading to increased dependence on consumer products. At the same time, there is an increased call by individuals to foster community, cultural integrity and human cooperation and understanding. International bodies and institutions, such as ITU and WTO, which govern communications and information industries and shape the future of the information society, are increasingly pressured by corporations and trade lobbies. At the same time, the new Global Information Infrastructure, which is being designed and promoted by industrialized countries, has not taken into account the particular needs of countries in the South. Indeed, many nations in the South are discouraged that they are not being consulted on such far-reaching decisions at the global level.

EMERGING THEMES IN THE SOUTH

The response of the South to the process of media globalization is varied. The historical experience, level of communication infrastructure, and political and cultural system of each country have an important influence on how it might react and adapt to globalization of the media. Over the last several years, a number of trends have emerged within the South which may profoundly impact the way the South responds to this worldwide phenomenon. These emerging themes, which result from individual reactions and the responses of private and governmental sectors to globalization, may be summarized as follows:

Ethnicization of mass media in face of globalization

With immigration and international travel now a recognized facet in the social landscape of many industrialized nations, communication and media flows are exhibiting new patterns as compared to a few decades ago. Immigrant workers in the North had typically stayed together in certain geographical regions of their host countries. However, socio-political and cultural factors in their host countries have led immigrant communities to become more dispersed. Thus, meeting their cultural needs is increasingly a task for television and radio broadcasting, among other methods, with technology and market economics aiding the phenomenon. In fact, advances in technology coupled with globalization are now even making it possible for broadcasters from outside the host country to reach these specific audience segments.

A good example of this phenomenon

of ethnicized media is given in a study on the rise of Turkish media culture in Germany (Becker: 1997). Since the early 1990s, the Turkish state-run station, TRT-International, has provided a flow of programming into Germany, targeted to approximately 2 million Turkish migrants in the country. This was facilitated by satellite and as part of German cable TV systems. As a result, TRT is the most watched service among immigrants in Germany, and research shows that fewer and fewer Turkish migrant viewers switch over to German TV stations. This gave rise to an interesting reverse flow when, in April 1996, TRT-International asked Turks in Germany to donate money to help the Turkish government protect its borders.

In Australia, many immigrant populations are using community programming as a way of reinforcing their cultural identities, maintaining their ties to their homeland, and constantly renegotiating their role in Australian society. These include significant groups of Chinese, Thai, Vietnamese and Indian people. Since mainstream media and communications policy in Australia do not cater to the diverse needs and interests of this multicultural population, such communities are using small-scale production to produce and disseminate their own programs. In addition, they rely on pay and satellite television to access programming from their native countries.

India boasts the largest film industry in the world and exports its films and cultural products to many of its nationals living abroad, including those in Australia and Fiji. In both countries, Indian communities have created an "ecology of communications", using film and other Indian cultural products as a center for community life and daily activities. Film stars are invited to appear, and community activities and events are organized around Indian films and videos.

Reaching language minorities inside a developing country also takes special effort and leads to ethnicization of media. In India, broadcasting through the Indian National Satellite (INSAT) has achieved a multilingual mix in the programming carried by networks. These programmes reach linguistic minorities within India's own population, large numbers of immigrants residing in the country, and even speakers of those same languages who live in neighboring countries. In South Africa, with the rapid growth of broadcasting services since 1995, a number of broadcasters are purchasing imported news from abroad to cater to language minorities.

Alternative media

As a counter to the spread and overarching reach of global media corporations over the past few decades, some countries are promoting and making increased investments in local, indigenous programming. "Alternative media" and community programming have developed and grown.

This counter-trend is particularly

evident in Latin American countries in response to the rise in imported broadcast programmes. Many countries, including Bolivia, Columbia, Ecuador and Venezuela, are imposing restrictions on imports and requiring television stations to carry a certain percentage of domestic programming, ranging from 20 to 60 per cent of total programming.

Alternative media, especially community radio and television, provide grass roots communication outlets which trace their origins back to the link between radio and education. During the 1970s and 1980s, local and university stations gave impetus to community radio and TV movements. Particularly notable about the community stations in Latin America is that they are being developed by nonprofit and civic organizations and are promoting the notion of civil society.

With their success and acceptance in the socio-cultural context, community media have begun demanding and obtaining legislative action to give them legal status. This groundswell has come mainly from radio-based media, and in the near future the same standing could be extended to television. For example, in Columbia, community radio transmitters of up to 500 watts are permitted, and their programmes may carry advertising but not political propaganda. Chile also allows community radio stations, though only up to 1 kilowatt of maximum power, but no advertising. In Ecuador, the maximum permitted wattage is 150 watts for FM, 250 watts for AM. In Bolivia, radio transmitters and inexpensive community-bought radios serve the needs of the poor in an urban slum. Mexico, Brazil, Argentina, Uruguay and other countries are also framing legislation that would recognize the role of community media. Some consider that Mexico's initiative for setting up "citizen radio and television" is one of the most promising initiatives in the field (Roncagliolo: 1997, 221).

As compared to the community media approach in Latin America countries, the battle for audience attention is also being waged on a commercial and market economy basis in many countries of the South. In India, for example, the state-run television organization, Doordarshan, is competing with the private channels for viewers whose number has swollen from 17 million to over 300 million in less than 15 years. The private channels, such as Star TV and Zee TV, are all based outside India since Indian law does not allow private broadcasting from an Indian base. India has seen a spurt in production of television programming by private companies which have chosen "...less-known subjects, classic stories of various languages and characters, and have adopted innovative methods for their productions..." (Agrawal: 1997, 149).

In short, the rise of alternative media signals the empowerment of the communities of South in expressing their opinions and needs by using modern technologies to obtain their participation in the public sphere.

Designing comprehensive media policies

The globalization of communications and media is spurring a new recognition by countries of the South. They are facing issues and concerns similar to those expressed in the 1970s and 1980s debate on a New World Information and Communications Order (NWICO). But these questions are arising in a much more complex manner than they could have been imagined back then. The pace, style and technology of globalization is forcing Southern countries to take a hard look at their media and communication policies and a more comprehensive approach to their formulation, seeking to move faster in trying to match the aspirations of their peoples.

The Islamic Republic of Iran is one nation which has taken a holistic view of communication policy ever since the NWICO era and its national revolution. Its policy emphasizes self- reliance and an unwillingness to submit to the supply-demand formula of the international market. This policy is carried through by organizational, investment and programming measures. The importance of television is enshrined in the 1979 constitution, which gave it an independent organization outside any single ministry. Particular attention goes to public broadcasting, and there is extensive investment in the expansion of locally produced programs. The national television system, Islamic Republic of Iran Broadcasting (IRIB), was reorganized in 1979 and now has four major national channels which cover an audience of 30 million out of a population of 60 million. There has been a vast increase in domestic programming and a considerable reduction in dependency on foreign materials. In 1991, 85 per cent of all television programs were produced domestically (Mowlana: 1997 b, 205). News information and documentaries are prepared within the Islamic community framework, thus ensuring a comprehensive approach to communication.

India has been designing policies to empower and strengthen the indigenous communication and media sectors. A Broadcasting Bill in 1997 established an independent Broadcasting Authority of India to facilitate and regulate broadcast services. Also, the Prasar Bharati (Broadcasting Corporation of India) Act, 1990, which came into force in 1997, shows that "...at last the Indian electronic media are truly moving towards the creation of an autonomous, independent and responsible broadcasting structure to meet the information needs and entertainment expectations of television viewers in a democratic country" (Agrawal: 1997, 144).

India's communication plans are extensive, and its advances in satellite technology have helped expand television rapidly. The NWICO years saw India developing satellite capacities. By 1982, the Indian National Satellite (INSAT) system was becoming fully operational, and color transmissions were introduced.

The expansion of the Indian TV network started with the "install one transmitter a day" philosophy, and about 1,000 terrestrial transmitters are in operation today. With TV placing primary focus on development, the prime advertising spots (apart from commercials) are taken by public information services which provide development messages related to agriculture, health, education, and other initiatives by the government. National and regional services broadcast primary, secondary and post-secondary learning programmes. An elaborate infrastructure of production facilities has been created in various states, and within the university system for producing higher education programmes. Television is also being used by over half-a-dozen open universities with their own production facilities. India has successfully maintained control of its national communication policy and planning in technology areas by mandating 51 computer-related technologies and supporting the development of national technological industries.

Internationalization of media within the South

The South particularly views its dependence on foreign firms and transnational actors as evidence that the important basis for national decision-making is now located outside its national boundaries. To remedy this situation and depending on the resources and infrastructures available within the South, a number of countries in Latin America and the Middle East have succeeded in developing and extending their mass media systems, in particular television, beyond their national boundaries into areas with shared language and cultural characteristics. This phenomenon is occurring within the trend toward commercialization and privatization of public communication in the two regions.

In Latin America, for example, a number of major changes have occurred in the traditional organizations of the mass media industries. The television industry in Latin America is becoming more complex, more diversified and more transnational. The changes are most significant in countries with the largest private media conglomerates, principally Mexico and Brazil.

However, on a smaller scale, similar patterns of diversification, growth, and internationalization can be found in other countries of the region. In Mexico, Televisa is now a complex and diversified transnational company. Its holdings include four television channels, cable companies, and a number of smaller production and distribution firms. It produces and disseminates the largest amount of Spanish language television programs around the world. Its soap-opera series reach as far as Russia, where they are dubbed into local languages. In Brazil, Globo Television covers virtually all of Brazil's regions, as well as a vast international market network throughout Latin America as well as in Portuguese-speaking countries in Africa and Europe.

In Venezuela, Radio Caracas Television is a major supplier of programming throughout Latin America. It has entered the United States market through Univision, and has its own programming sales company in Miami.

Transnational activities of the media can also be observed in the Arab region of the Middle East. Countries with high oil revenues in the Arab world have absorbed many new communication technologies, satellite infrastructures and other telecommunications innovations. The collective resources of the region have enabled it to invest in such systems as Arabsat and Arab League regional satellite systems. Arabsat offers a range of services, with a footprint reaching from the Atlantic coast of west Africa right across to the Indian Ocean. During the last decade, a number of Arab-owned conglomerates, often with headquarters in European countries, have used these facilities to launch major television broadcasting and newspaper enterprises. During the last 20 years, London has become the major center of Arab newspaper and magazine publishing, with distribution to Arab countries and the world market. Internationalization of media in the Arab world includes the production of paper, radio and television receivers, printing inks and related equipment, telephone instruments, antennas, and numerous other products. For example, Egyptian film and cinema production has historically been in the forefront of media development in the Arab world and has received considerable support during the last several years. The Arab League Educational, Cultural and Scientific Organization (ALECSO) considers these industries to be a foundation of what it calls the region's cultural security.

India, traditionally a major center of film and cinema production, has already added a number of related enterprises, including video technology. It has also aggressively accelerated production, dissemination and marketing of its films to South Asia and the Middle East, especially the Arab world. Capital from the rich Arab world has been invested in India's film-making and video businesses. In addition, India has been active in the development of its advertising industry and expanding its techniques and know-how to the Gulf region, where privatization of industry and commerce has been most pronounced over the last few decades.

CONCLUSION

As we have seen, globalization is a complex phenomenon, a dialectic which elicits very different reactions from individuals, nations and cultures around the world. It is a result of the expansion of international business and a liberalization of economic, communications and political policies worldwide. It has resulted in a complicated interaction between "globalism" and "localism", where huge corporations are selling products across national boundaries and creating a globally homogeneous culture of consumption. In addition, globalization is resulting in economic growth in many countries and is presenting new opportunities for trade, individual empowerment and cultural integrity internationally.

The dynamic between these two forces in future will depend on the balance between regulations governing economic expansion, communications integration and cultural sovereignty, as well as the ever-changing relationship between governments, international organizations, corporations and individuals. Although globalization appears to play a central role in our collective future, it is uncertain how it will be affected by grassroots movements and alternatives present in the South and within the industrialized countries. However, innovations in consumer technologies and the marked decrease in production technologies, such as low-cost video, Internet, and computers, have the potential to enhance individual freedom, widen opportunities for countries in the South, and increase democratic participation in communications and the media.

The debate on communications and media issues in the last several decades should stimulate governments and private sectors in the South to adopt comprehensive national information and communication policies to respond to problems brought out by advances in telecommunications technologies and the process of globalization. ■

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Knowledge Networking for Technology "Leapfrogging"

BY PROFESSOR NAZLI CHOUCRI

Globalization imposes new demands and new opportunities in access to knowledge and its applications. Knowledge networking can accelerate this access and the sharing of information about technology choices. Developing countries thus can "leapfrog" directly to "frontier" technologies which are more effective, cleaner, and less costly than the usual infrastructure. To seek these benefits, Professor Nazli Choucri of the Massachusetts Institute of Technology Department of Political Science offers a "no-risk" strategy for knowledge networking, technology advancement and capacity-building.

INTRODUCTION

Global paradox and technology advances

The global consensus that development must meet the needs of present generations without compromising options for future generations shapes all facets of globalization. By its endorsement of Agenda 21, the international community has expressed its unreserved support for both the goal and the process of sustainable development. Given the obvious challenges, there is a powerful paradox.

The paradox is this: on the one hand, the obstacles to sustainable development are formidable and seem near-unsurmountable; on the other hand, the key elements required to transform obstacles into opportunity are already in place. Resolving the paradox requires transforming latent opportunity into effective strategy. And that requires bold and effective management of technology—in terms of choices and investments, transfer and cooperation—and access to the scope and scale of relevant knowledge to dictate technology investment priorities. Box 1 lists 10 reasons why technology advance is crucial to development.

In order to progress beyond the foundations provided by Agenda 21 and current implementation efforts, it is necessary to create new technology options and development possibilities—in analytical, strategic, and operational terms—for all countries and at all levels of development. In this age of accelerating globalization, access to relevant knowl-

BOX 1—WHY TECHNOLOGY ADVANCE IS IMPORTANT FOR SUSTAINABLE DEVELOPMENT

Emphasizing positive aspirations.
In the context of development, technology and technology choice are among the very few factors that can be altered as a function of national policy. This gives developing countries some "hope" on potential possibilities for development and lasting involvement of all citizens in the future of their nations.

Responding to leapfrogging.
Technology choice allows countries the possibility of "leapfrogging" without reproducing the outmoded physical and technological conditions in the industrial countries. Furthermore, given rapid rates of population growth, acceleration is necessary. Developing countries simply do not have the time to pursue the same historical development path as the industrial West.

Facilitating redevelopment and reconstruction.
In areas destroyed by warfare, choices of technology in reconstruction strategies enable countries to select strategies that would not have been possible before.

Increasing choices.
Effective management of technology factors gives countries the option of taking their destiny in their own hands. It also enables them to avoid building or rebuilding outmoded (and usually inefficient) infrastructure. Instead, they can put in place "frontier technology," which is likely to be more effective, cleaner, and less costly than the "usual" infrastructure.

Respecting socioeconomic diversity.
Changes in technology, by definition, are based on concepts and realities of diversity—diversity in economic, demographic and financial conditions, and in overall goals and objectives. Technology choices can and should be custom-made in response to different conditions in different developing countries.

Connecting environment and development.
Technology factors allow countries to avoid choosing between environment and development. Developing countries are in the fortunate position of having options that the industrial countries did not have when they were going through their own industrialization at an earlier period. With appropriate technology, strategies of development may proceed without necessarily destroying natural environments.

Enabling private sector involvement.
The private sector would welcome a robust initiative recognizing the importance of innovations, technological capabilities, and technology choices. We can also think of ways in which the private sector would be willing to participate actively in a global strategy to accelerate appropriate technological change.

Improving uses of financial resources.
There is no shortage of capital in the world, no shortage of financial resources. What is scarce is a set of effective strategies of confidence building to facilitate the deployment of financial resources.

Advancing knowledge networking.
Effective technology choices benefit everyone. Everyone loses because of, and bears the costs for, poor choices. Technology strategies and choices could be reinforced through effective knowledge networking strategies.

Enabling capacity-building through knowledge networking.
Only with appropriate attention to knowledge networking can technological prospects and possibilities be enhanced and strategies for development be comprehensive in scope. Conversely, if knowledge networking is ignored, then technology capacity will be undermined.

edge—to science and technology—is a critical imperative, as is the choice of "best applications" of knowledge.

Globalization and knowledge networking

It is generally understood that knowledge is a critical driver for social change. Judicious uses of communication, information, electronic connectivity, and related mechanisms can enhance the applications of knowledge. Less appreciated is the importance of knowledge networking in various forms and modes—for accelerating access to relevant knowledge, and to information about technology choices. Before reasonable individuals (governments, firms, or institutions) in a decision-making capacity can be asked to do something, they must have access to basic data, robust information, and coherent knowledge about the issues at hand.

Globalization imposed new demands and new opportunities in access to knowledge and its applications. The demands are created by the very speed at which knowledge advances in industrial countries and the plethora of applications possible. Hence, choosing among alternatives is often a daunting task. The opportunities are engendered by new technologies that facilitate access to information, data, theories, evidence, and the overall knowledge base upon which they are predicated. But there are serious technology gaps.

Effective networking has three preconditions. First is reliable connectivity and communication, in terms of basic infrastructure in place. Second is robust content in terms of the availability of core data, information, and interpretations. Third is effective capacity, institutional as well as individual, to perform essential tasks.

Effective networking has three pre-conditions: reliable connectivity and communication; robust data and interpretations; and effective capacity, institutional as well as individual, to perform essential tasks.

To date, advances in electronic technologies have greatly reduced the costs of global communication. However, such communications have largely been one-way; effective connectivity requires two-way exchanges in which the recipient also becomes a sender. This ability to "conference" is especially crucial as business and industry in developing countries seek to respond to experiences in the industrial West and, more important, seek to share their own experiences among themselves and with industrial countries.

Technology "leapfrogging"

Technology "leapfrogging" enables developing countries to avoid replicating the historical and polluting trajectory of the industrial West, accelerate their own development, and seek to meet their own needs and requirements. This is not a normative issue, nor is it philosophical. It is a strategic, pragmatic, and practical imperative, which focuses attention on actions to avoid "old-fashioned" technology. If there is to be effective technology cooperation or transfer, then it must surely be positioned at the frontier of technology, and not along the historical trajectory of known polluting products and processes.

Reducing barriers to selection of and access to relevant technological interventions, strategies, or products is a major priority for all countries of the world. It is especially pressing for the industrializing countries as well as the least developed. The reason is this: For the effectiveness of sustainability and survival strategies, it is imperative that the mistakes made in the West be avoided. The quest for technology "leapfrogging" becomes a necessity, not a choice. And reducing the technology "gaps" is a necessary prerequisite for "leapfrogging" initiatives.

For countries like India, China, and Brazil among others, where socio-economic conditions are varied, markets are diverse, consumers are diffuse in their orientation, and purchasing power may be on the verge of a "take-off," the importance of knowledge networking cannot be underestimated. Such capability is far from a luxury.

The challenge for each country is to proceed along its own trajectory of sustainability, expand its overall technological and institutional capabilities, and thus make the best and most effective uses of its natural and socio-economic endowments. For all countries, there are three crucial and interconnected priorities: (a) strengthen technology capacity by reducing technology gaps and raising institutional performance; (b) acquire knowledge about "best technologies" as well as knowledge-networking mechanisms and processes; and (c) maintain access to networks of knowledge as well as interactions with major knowledge and information providers.

THE TECHNOLOGY STAKES

Access to knowledge is the cornerstone of any development strategy. And barriers to knowledge exacerbate prevailing technology gaps, thus further impeding development prospects.

"Generations" of technology

To date, the international community has been involved in four "generations" of technology transfer. The first efforts were by well-intentioned individuals in the North seeking to solve the problems of the South (with uneven results at best). Second were the technologically competent individuals who introduced new concepts and technologies in the South, without direct inputs from users or stakeholders (with limited success). Third are more recent efforts informed by the limitations and failures of the past (buttressed by greater wisdom and experience). And finally are the current initiatives seeking to accelerate "leapfrogging" potentials.

Developing countries are by definition "latecomers." The options available to them are, also by definition, fundamentally different from those of industrial economies at earlier stages of their development. Therefore, developing countries may well have possibilities for "leapfrogging" in many traditional areas, such as pulp and paper mills, as well as in new areas, such as information and communication technologies. Leapfrogging in this sense would be enhanced technical effectiveness in a particular area, necessarily "reinventing" the earlier phases of technology systems that appeared in the historical experience of the West. Box 2 identifies five key technology gaps that impede putting innovations to work to achieve sustainability and socioeconomic development.

Given the technology gaps, what is needed is a mechanism for facilitating diffusion of knowledge about technology options and strategies, about "leapfrogging" potentials, and about experiences to date. The realities of globalization simply reinforce such gaps. And this is why reinforcing knowledge-networking capabilities remains among the most critical priorities for developing countries. In practice, the nature of these gaps varies considerably from country to country. Identifying the most pronounced gap in different countries is an important prerequisite for success in innovation, access to technology, and technology cooperation.

While industrializing countries are in the unique position of avoiding the historical mistakes in the development trajectories of the industrial countries, they need better access to information about

Knowledge networking—to diffuse knowledge about technology options and strategies, "leapfrogging" potentials, and experiences to date—is crucial if developing countries are to close technology gaps. Globalization simply reinforces such gaps.

BOX 2—FIVE TECHNOLOGY GAPS:

- BETWEEN innovation and commercialization in both the North and the South
- BETWEEN technology levels of the North and the South
- BETWEEN technology levels among countries of the South
- BETWEEN prevalence of known technologies and the diffusion of knowledge about technology
- BETWEEN applications of technology and diffusion of knowledge on experiences and impacts of applications.

existing technologies; enhanced cooperation of the North to avoid the use of detrimental or excessively hazardous technologies; and greater cooperation among themselves to help develop improved indigenous technologies.

What is at stake?

Appropriate deployment of technology is a necessary condition toward sustainability, at all levels of development. More advanced technologies can help to serve human needs better, more efficiently, and with less detriment to natural environments. Technology for sustainable development means applications of knowledge and skills (both organizational and mechanical) to generate:

- enhanced efficiency in economic activity
- cleaner manufacturing and energy production and consumption processes
- greater compatibility with social and cultural conditions
- increased flexibility in adaptation, innovation, and management of change
- strengthened capacity for making strategic choices
- reinforced mechanisms and institutions for capacity-building.

In contrast to economic growth, which implies an expansion of size and scale, sustainable development refers to the transformation of national assets (both natural and social) to meet the needs of present and future generations. Since strategies for sustainable development need to be "customized" to the specific conditions of individual countries, the expansion of capacity today must also be targeted to the needs of tomorrow. Technology choices must be compatible with current conditions, flexible, and adaptable in order to facilitate structural and social change toward sustainability.

The rate of technology growth worldwide continues to be on an upward spiral. Investments in technology— research and development, application, and commercialization—are also expanding, as are the returns on technological investments. But levels and rates are uneven among countries in fundamental, dramatic, and increasingly critical ways.

Prevailing controversies about the sources of "ideas" and their commercialization abound. Two basic, but not mutually exclusive, contentions—"science-push" vs. "market-push" explanations—point to the importance of education-related infrastructure, on the one hand, and demand-based, commercial capabilities, on the other. Both are based on foundations of knowledge and are "fueled" by knowledge-networking capacities.

The "no-risk" technology strategy

Given the above imperatives, we now put forth a "no-risk" strategy for technology advancement and capacity-building. A country cannot develop and adjust to changing circumstances without putting in place an effective institutional mechanism to facilitate technological change and the infrastructure and administrative capacities required to exploit knowledge-building opportunities. This strategy has two parts—"the Technology Triangle" and "the Global System for Sustainable Development."

A country cannot develop and adjust to changing circumstances without putting in place an effective institutional mechanism to facilitate technological change and the infrastructure and administrative capacities required to exploit knowledge-building opportunities.

THE TECHNOLOGY TRIANGLE

Institutional Imperatives

To date it has been demonstrated repeatedly that, when the government teams up with academia and industry on a spectrum of technologies, the probabilities of success expand dramatically. Universities and scientific institutions create research that is "pre-competitive." Its results become of commercial value only when they are employed by industry. As noted earlier, government can facilitate the process of technology creation and commercialization through the use of appropriate incentives and by eliminating obstacles. The Technology Triangle refers to strategic linkages, cooperation, and mutually reinforcing policies among these three sets of institutions in society:

- universities and scientific institutions (that create knowledge and skills)
- business and industry (that employ and commercialize knowledge)
- government (that provides constraints and opportunities, regulations, and legislation, for expansion of knowledge and skills).

Institutional and organizational arrangements differ, as do the incentive structures and the sources of financial resources. However, if properly managed, and with the support and participation of non-governmental institutions, the institutional foundations for technological development can be expanded.

Actions in the Technology Triangle

Each of the individual elements—government, business, and the scientific and academic communities—performs necessary functions.

In support of a country's knowledge-building strategies as well as its science and technology system, government plays a special role as a source of financial support (for the education system, for basic science, and for some applications). Some of its agencies are also major "customers" for the output of science. Most notable is the defense industry, where financial allocations are made on strategic and political grounds, often considered "above the law" and not subject to the usual forms of budgetary scrutiny. In industrial as well as developing countries the defense agencies have been major sources of financial support for science-based research. They are also the source of a wide network of supporting institutional linkages (known as "contracting" and "procurement") which provide essential services to support that system.

By contrast, business and industry are driven by profit, not security considerations. Their participation in strategic collaboration for technology advance is also essential to a robust Technology Triangle. The firms are the employers of the product of the education system and of the output of research-and-development institutions. They are the agents in the underlying "contracting" and "procurement" system noted above.

The institutions of science and technology (education, research, etc.) are fundamentally dependent both on government and on business and industry for their overall viability. They will be as good as they are pressed to be. They are pressed by government for performance in return for financial support; and they are pressed by business and industry for the quality of their trained products and for the quality of the (consulting) services they can provide.

Necessity, not luxury

Considerable evidence suggests that economic growth, international competitiveness, innovative capabilities, and technological change are all contingent on a viable and effective Technology Triangle. For this reason, a good Technology Triangle is more a necessity than a luxury; it is an imperative of national development. It becomes an effective institutional mechanism for sustaining the technological capabilities of a society only if all three parties perform with a degree of reliability and meet each other's needs, demands, and requirements to some predictable extent.

When such conditions prevail, then the Technology Triangle part of the proposed technology strategy is in place. But its robustness depends on continued access to knowledge and, therefore, on knowledge-networking capabilities and effective uses of advances in information technology. The Global System for Sustainable Development has been developed specifically for such purposes.

GLOBAL SYSTEM FOR SUSTAINABLE DEVELOPMENT

Knowledge networking for decision making

The Global System for Sustainable Development (GSSD) is an electronic knowledge-networking and management system for strategic decision-making.

It is designed to overcome obstacles created by the explosion of information, difficulties in tracking advances in science and technology, and the prevalence of technology "gaps." To this end, GSSD provides an integrated approach to sustainability issues, improves access to advances in science and technology,

BOX 3—GSSD KEY FEATURES AND DELIVERABLES

- **A coherent and adaptive approach for managing the rapidly growing knowledge base associated with dilemmas of sustainability.** By "knowledge" is meant here both formal scientific evidence based on formal modes of inquiry, as well as informal culture-based insights that enable environmental challenges to be understood and interpreted within rich contexts.
- **An integrated knowledge-based platform for strategic decision-making.** By stressing connectivity across issues, as well as access to specific knowledge and information, GSSD serves as a support system for strategic analysis and decision-making.
- **A knowledge networking system predicated on principles of synergism, distributed networking, and decentralized management.** These features enable GSSD to support decentralized management of knowledge, and to counter trends toward centralizing knowledge (both theory and practice) in advanced industrial countries of the North. GSSD reinforces "flows" of knowledge to the South and eliminates barriers to access. Such barriers deprive the South of effectively utilizing indigenous knowledge for conservation and sustainability purposes.
- **An operational strategy for decentralization through establishment of GSSD mirror sites in select locations worldwide.** "Mirror-site" means an exact clone of the core system used in the global data base, as well as more localized information systems relevant to the site in question. Such sites may best be used in conjunction with language facilities other than English.

tracks the implementation of Agenda 21 and global accords, provides the basis for expanding knowledge for new accords, and enables "two-way" communication and conferencing.

In technical parlance, (GSSD) is an effort to provide a coherent knowledge base bearing on the multiple dimensions of sustainability—in all contexts and levels of development. It is also an effort to engage the research and policy communities in different parts of the world in "sorting out" the complex elements of sustainability and providing some intellectual order, analytical coherence, and directives for decision-making. GSSD is "intelligent" in the sense that it is responsive and adaptive to user needs.

GSSD users are two kinds: those searching for knowledge or wanting access to it, as "normal" users do all over the world; and those seeking to provide or input information, such as industry, governments, research institutions, etc. Box 3

BOX 4—VALUE-ADDED OF GSSD

Information consolidation.
Available information about new technologies can be consolidated and diffused by promoting (at very low cost) the strengthening of existing global technology networks of communication and computation. These include networks operated by international institutions, such as UNIDO, UNEP, and UNDP. They can be linked with private sector networks, such as those of the International Chamber of Commerce (ICC) or the World Business Council for Sustainable Development (WBCSD), and with technology networks of major universities and centers of research generating new technology, such as MIT, University of Tokyo, Technical University of Berlin, and others.

Decentralization of knowledge.
The opportunity thus exists to expand networking and information dissemination (including basic quality control) and reduce the tendencies toward centralization of information. Given advances in information technology summarized above, the cost of such networking would be minimal at best. Goodwill could be demonstrated by the private sector if "in kind" contributions could be made, such as use of their existing computation networks, thereby reducing costs further.

Expansion of networking systems.
Information networks can be used to expand potential opportunities for North-South and South-South technology cooperation. With greater access to information about "best technologies" and about locations of suppliers and users, new partners will find it easier to identify each other and initiate contacts around projects of mutual benefit. The "matching" process itself is of major importance.

Technology "census".
GSSD permits assembly of technology already in the public domain, for better access and fuller assessment. Not subject to patent restriction, technology in the public domain is also a global asset that calls for fuller utilization, as are opportunities inherent in technologies whose diffusion is limited due to information or networking constraints.

Realistic ("full costs") calculus.
At a minimum, the true costs of technology should be estimated and made known as part of the effort to improve choices. These full costs should be explicit in negotiations between buyers and sellers and in all related transactions. On the other hand, the system should create barriers to the transfer of technologies that impede sustainability. Impeding trade in environmentally damaging technologies has the added effect of creating incentives for the development of improved alternatives.

Creating innovative-technology markets.
Opportunities for new types of ventures can be generated through improving information networks, reducing undue barriers to technology access and trade, and promoting entrepreneurial partnerships (North-South and South-South) for private and public investments.

"Leveling the playing field."
Developing countries are likely to have a greater influence on shaping rules and regulations for new markets in technology than for existing markets. Since the greatest market opportunities for novel technologies are undoubtedly going to be in developing countries, anticipating now the shape and contours of markets in new technologies may help frame opportunities for the developing world.

BOX 5—GAINS FROM KNOWLEDGE NETWORKING

- identifying "best practices"
- eliminating technology barriers
- facilitating "leapfrogging" in information technology
- protecting quality controls
- retaining access to knowledge frontiers
- obtaining knowledge of practical experience

lists some key features and specific "deliverables" from GSSD to its CyberPartners.

Current developments of GSSD include (a) user-friendly interfaces, (b) linguistic diversity (beginning with Spanish—under implementation), (c) mirror-siting (or "cloning" GSSD and its capabilities and locating these in non-Western contexts), and (d) routinization of quality controls for data-base and knowledge systems. Box 4 presents the value-added of GSSD for its users.

Building on innovations

Innovations in "two-way" information technology and communication capability create the basis for the next phase in technology diffusion. With the direct participation of users, the development and transfer of technology effectively becomes an incidence of, and exercise in, technology cooperation. Such advances provide opportunities for developing countries to influence, even shape, the international community's ideas and actions on sustainable development.

This type of new computer-based information technology, supported by global communication networks, allows users all over the world to make their views known, in real time, about an issue at hand. More important, it allows users to transmit information about their own experiences to others. This capability eliminates the need for lengthy "evaluations" of technologies, investments, or experiences by outsiders; immediate feedback can now be obtained from the affected community—the stakeholders in question. Parenthetically, knowledge networking has been identified by the US National Science Foundation as one of its core pillars for future scientific and policy development, thus reinforcing the importance given to networking technologies by leading industrial countries. Box 5 shows some gains from knowledge networking.

CONTRIBUTIONS TO SUSTAINABLE DEVELOPMENT

Globalization of diffusion

The diffusion of information technology innovations and applications is no longer restricted to industrial countries.

The key principle, therefore, is that developing countries can, and should, be enabled to "leapfrog" the knowledge-related technologies by having access to "state-of-the-art" information systems and adapting them to their own inputs and requirements.

Access to, and innovations in, information technology—including expanding the uses of computer capabilities—must be supported by major strides in literacy rates and overall levels of education. Already we have seen how many of the rapidly industrializing countries are competing successfully with industrial countries in software development and data management techniques. Generally in developing countries it is the more advanced computer technology that is being introduced, rather than the old technology.

Competitive market conditions among suppliers (as well as software manufacturers) ensure sales of the newest technology at the lowest prices. For the less developed countries, access to the use of, rather than innovations in, information technology is expanding rapidly. For the least developed countries, advances in information technology are of use principally in relation to government decision-making and business and industry, rather than for broader dissemination.

Naturally, developing countries have a high interest in sustainable development, its dimensions and processes. Their role and experiences in sustainable development have special relevance to advances in the area of information systems. Indeed, there is commercial value in their contributions and inputs regarding sustainable development concepts, actions, and projects. "Two-way" communication capability expands potentials for participation of stakeholders in all countries, at all levels of development, related to any issue over which access to information is relevant. Both the access and contribution of developing countries to innovations in information technology will accelerate their own rates of technology change.

Diffusion of "best practices"

With improved communication, the diffusion of information on "best practices" in energy technology, pollution control, or "clean manufacturing" would be improved. Access to "best practices" enhances prospects for implementation where they are most needed. With improved communication, developed countries could obtain a better understanding of the nature and urgency of the problems in developing countries. With improved communication greater knowledge can be obtained by both developed and developing countries about possibilities of commercial ventures.

And, by enhancing access to knowledge about action, experience, and expectations between supplier and receiver of technology, there will be greater transparency in the exchange, and the overall quality of the exchange will be upgraded. So, too, improved two-way communication could facilitate patentable, indigenous knowledge emerging from innovations in developing countries and from their unique conditions. That may facilitate the development and diffusion of patentable knowledge in the South. "Two-way" and "real-time" information technology and communication capability expands potentials for participation of stakeholders in all countries, at all levels of development, related to any issue over which access to information is relevant. ■

AT THE FRINGES OR CENTER STAGE?

Repositioning Developing Countries in WTO

BY BHAGIRATH LAL DAS

Multilateral trade negotiations and structures have been changing rapidly—to the disadvantage of developing countries. This is the insider's perspective of a direct participant in the process, Bhagirath Lal Das. He calls for developing countries to work together more, identify their common interests and strengths, defend themselves against exploitation, and place their own agenda at centre stage in international trade and economic arenas. Mr. Das was formerly Permanent Representative of India to GATT and then Director of International Trade at UNCTAD.

THE WORLD TRADE ORGANISATION (WTO) has assumed a pivotal role in the global economy and the affairs of individual countries. Its reach is getting deeper and wider. From its traditional domain of export and import of goods and the related disciplines covered by the General Agreement on Tariffs and Trade (GATT), it has now spread to services and intellectual property rights (IPRs), thereby having a significant impact on the production process. And there are moves afoot to expand its role to cover yet other areas. This would have serious implications for the entire development process, particularly in the developing countries.

The WTO is fast enveloping the countries of the world in an economic framework largely devised and influenced by the major industrialised and developed countries. Though a large number of developing countries are in the WTO, they seldom have an effective role in guiding its course. Even earlier in the GATT, the developing countries hardly ever had a decisive role.

This paper discusses a twin trend: the ignoring of the basic interests of the developing countries by the GATT/ WTO system, and the extraction of significant concessions from them. It identifies reasons for these trends and makes some suggestions for improving the situation.

TRENDS IN THE PAST

Weak foundation

The problems for the developing countries in relation to the GATT/WTO go back to the foundations of the system. Both GATT and the Marrakesh Agreement Establishing the WTO recognise such noble objectives as raising standards of living, ensuring full employment and enhancing real income. They also mention "reciprocal and mutually advantageous arrangements" for reduction of tariffs and other barriers to trade as the means to achieve these objectives.

Any "reciprocal" arrangement can be useful among countries at almost similar levels of development. But it is very much deficient when countries with a wide spectrum of development levels are involved. In such a situation, the group of highly developed countries almost inevitably gain more, and those at lower rungs of the ladder are marginalised. There may be sporadic and small gains for them here and there, but their core concerns will perhaps never come to centre stage. This is precisely what has happened in the GATT/WTO system.

Rules ignored in specific sectors

The problem goes beyond a built-in structure that generates less benefit to weak trading partners, like the developing countries. In addition, major developed countries have taken some deleterious actions in specific sectors. This produced severe adverse effects for a large number of developing countries.

It started in the middle 1960s, when the textiles industry in the major developed countries found itself unable to compete with imports from developing countries. This could have led in one of three directions. First, if the normal free play of market forces were allowed to run its course, the result would have been closure of these industries or their readjustment to the new competitive situation. But the major developed countries did not allow that to happen. The second alternative was to take recourse to the safeguards provision of the GATT. But this would have involved taking restrictive action on textile imports on a global basis, including imports from other developed countries. The major developed countries did not adopt this approach either.

Instead, following a third route, they decided simply to ignore the normal rules of the GATT, and introduced a completely separate trading regime in the textiles sector, popularly known later as the Multi-Fibre Arrangement (MFA). Totally contrary to the letter and spirit of GATT, this system restrained the import of selected textiles from the developing countries. The developing countries were persuaded and pressurised into agreeing to it, with an understanding that MFA would be temporary. In reality, the system continued until the end of 1994, and even after that, its restrictions have continued. The developing exporting countries suffered major loss of production and export prospects because of this discriminatory regime against them.

Discrimination was not limited to textiles. In the 1970s, the major developed countries introduced special restrictive regimes in the leather sector as well, again targeted mainly against imports from developing countries. The steel sector was also covered by a restrictive regime in some developed countries which curtailed the production and export prospects of some developing countries.

Similar restrictive measures were taken in some sectors, adversely affecting even very poor countries. For example, the import of jute products was curtailed in some major developed countries, which harmed the growth prospects of Bangladesh whose economy was heavily dependent on this sector.

Bilateral pressures for other commitments

In addition to this direct curtailing of imports from developing countries, pressures were also exerted to restrict their discretion in the area of subsidies which they used to encourage their industry and trade. The Tokyo Round Code on subsidies had recognised that subsidies were normal means adopted by developing countries for the growth and diversification of production and trade. But immediately after the Code was formulated, the US started a major drive of bilateral negotiations with developing countries; it asked them to commit themselves to limit subsidies, which they would otherwise have been justified to continue in accordance with the Code. What had not been achieved through the multilateral route was sought bilaterally.

RECENT TRENDS

Broad objectives of major developed countries

Recent trends are more disconcerting. The major developed countries are trying to achieve their objectives in the WTO with aggressive initiatives and determined pursuit going much beyond merely opening markets for their goods. They are pushing hard to expand the economic space for their manufacturers, traders, service providers, innovators and investors. Opportunities in their own economies are very limited, given their low population growth and sluggish GDP growth. They find the developing countries highly attractive as markets for their goods and services and for higher returns on their investments. Here the current consumption is low and the population is large, so any slight increase in per capita income is likely to boost demand significantly. Besides, those developing countries which are on a fast growth path can provide enhanced opportunities for the fast-growing technology and intellectual property of the developed countries.

All this would have resulted in an excellent opportunity for cooperation among the developed and developing countries in pursuit of their mutual benefits. But the developed countries, particularly the major ones, are now displaying new confidence in their own capabilities, and not giving much premium to the role of developing countries in their growth and progress. The times of the 1960s and early 1970s, when developed countries looked on developing countries as development partners, are no more. Now they consider the developing countries merely as geographical areas which should be utilised for the benefit of their own economic operators. Towards this end, they have been using the WTO quite effectively.

New areas of discipline

In their new energetic approach, the major developed countries are seeking to add new disciplines into the GATT/WTO framework. As previously noted, they started with service sectors and minimum standards of intellectual property rights. Developing countries hardly gain anything by the disciplines in these new areas, but must discharge their obligations in these areas at the pain of cross-retaliation on their goods trade.

The times of the 1960s and early 1970s, when developed countries looked on developing countries as development partners, are no more. Now they consider the developing countries merely as geographical areas which should be utilised for the benefit of their own economic operators.

The process of expanding the scope of the WTO framework goes still further. The developed countries are seeking to evolve rules for the freedom of operation of their investors and traders in other countries. At the same time, they are also trying to introduce rules which may curtail the production and trade of developing countries on the grounds of protection of the environment and observance of social clauses.

Some specific examples will characterise the recent disturbing trends in the WTO framework.

- The developed countries have pushed ahead to liberalise service sectors of deep interest to them, such as financial services and telecommunication services. Generally the developing countries have no export interest in these sectors, so the benefits will flow almost exclusively to the developed countries.
- Similarly, trade in information technology has been liberalised as a result of a surprise agenda item in the Singapore Ministerial Meeting of December 1996. Then in the Geneva Ministerial Meeting of May 1998, agreement was reached on a standstill in customs duty on a specific mode of trade—electronic commerce. Since developing countries hardly export information technology and have little export through electronic commerce, the exclusive beneficiaries of these disciplines will be

the developed countries.

- The General Agreement on the Trade in Services (GATS) in the WTO allows flexibility to the developing countries to liberalise fewer sectors and fewer transactions in services. And yet, the major developed countries insisted on high concessions from the developing countries, particularly in the financial services. For example, South East Asian countries faced persistent demands to liberalize the entry and operational conditions of foreign financial services. In fact, the US refused to join at first, mainly because it was not satisfied with the concessions made by these developing countries. And later in the final round of negotiations, intense pressure was put on some developing countries to open up their markets in this sector, much beyond what they were prepared to do.
- The GATT 1994 Agreement (in its Article XVIIIB) allows developing countries to restrict their imports in case of balance-of-payment problems. Recently a large number of developing countries have had to disinvoke this provision under intense pressure from major developed countries.
- At the time of accession of developing countries to the WTO, concessions have been demanded which go beyond the obligations in the WTO agreements. In fact, some developing countries have been totally denied the few special dispensations that developing countries still have in WTO agreements. For example, Ecuador was denied this status, and thus it was not allowed the flexibility of time, normally allowed to developing countries, for implementing the Agreement on TRIPS.
- The provision for possible unilateral trade action still continues in the US legislation, and various developing countries are targeted in this regard. Even though trade restrictions may not be ultimately applied, such threats do result in creating uncertainties and disrupting the fragile trade links of developing countries.
- On their side of the bargain, the developed countries have not shown willingness to liberalise their imports in sectors which they consider sensitive. A glaring example is the implementation of the Agreement on Textiles and Clothing. This Agreement has an annex containing a large list of textile products. At different stages, individual developed importing countries have to bring some of these products within the normal WTO disciplines. The obligation is that by the beginning of 1998, they should have covered by such liberalisation the products accounting for 33 per cent of their

imports of the products in the list. While implementing this provision, the developed countries have chosen mostly such products which have been restrained. By the beginning of 1998, they have covered only about 7 per cent of the restrained products. Thus, in actual practice, liberalisation has been done only to the extent of less than one fourth of what should reasonably have been done. They have defended themselves by taking recourse to the technicality that they have the discretion to choose the products from the list. In this manner, while fulfilling their obligation strictly in a technical sense, they have not brought about any significant liberalisation in this sector which is important for the developing countries. Further, major developed importing countries have resorted to new restrictive actions in a big way by directly limiting textile imports and by anti-dumping actions. All this shows that they are not reconciled to their commitment in the Uruguay Round that the textile sector will ultimately be freed from the special restrictive regime they had imposed on developing countries, in derogation of the normal GATT rules, as explained above.

In international trade, as perhaps in any area of international relations, making concessions may not be wrong in itself. What is abnormal and totally inexplicable, however, is not to insist on getting commensurate concessions in return.

For various reasons, the developing countries have been making concessions in the WTO without insisting on any reciprocal concessions. This has become so much the practice, that it is now accepted as a normal process, and any resistance to it is considered as undesirable obstruction. It is totally against the rational approach in the GATT/WTO system, where reciprocity is the basic instrument and strategy, as mentioned earlier. No developed country ever gives up any right or makes a concession without getting at least a commensurate concession in return. But the developing countries, as a token of good will or under pressure, have been frequently making one-sided concessions. Some examples of important concessions made by developing countries in favour of developed countries, without any significant concessions in return, are given below.

- Developing countries that were signatories to the Tokyo Round Code on subsidies have a right to use subsidies, subject to the conditions mentioned in the Code. Other developing countries have that right under Article XVI of

GATT 1994. In the Uruguay Round agreement on subsidies, they have lost these flexibilities. Those with GNP per capita equal to US$1000 or above have agreed not to have any export subsidies after 31 December 2002. All developing countries, excluding the least developed countries (LDCs), have agreed not to have any import substitution subsidies after 31 December 1999. The LDCs have agreed not to have any import substitution subsidy after 31 December 2002. Since the developing countries may need to use subsidies so as to reduce the natural handicaps of their production and trade entities, these are important concessions.

- A major concession made by developing countries in negotiating the Uruguay Round was the inclusion of services and intellectual property rights (IPR). Then a further important concession was made by agreeing to a framework for the liberalisation of services and to a set of minimum standards for the protection of IPR. The sole beneficiaries have been the developed countries, as developing countries hardly needed any liberalisation of services in the developed countries, nor had they any need of enhancing IPR protection in those countries. The enormous dimensions of these concessions are now becoming more apparent. The developed countries have treated these openings in the WTO system only as the beginning. They now want similar treatment for several other subjects that interest them, such as investment, social clauses, and good governance.
- Even in the post-Uruguay Round phase, the developing countries have continued to make concessions and give away their rights in the WTO without any return whatsoever. As mentioned earlier, there have been agreements on zero duty for information technology, and on a standstill, which actually amounts to zero duty, for electronic commerce—areas where developing countries have hardly any export interest. The sole beneficiaries, therefore, are the major developed countries.

In international trade, as perhaps in any area of international relations, making concessions may not be wrong in itself. What is abnormal and totally inexplicable, however, is not to insist on getting commensurate concessions in return. In international economic relations, one acquires rights through a tortuous process of negotiations. To surrender such a right, or undertake a new obligation without a reciprocal benefit from the other side, is totally alien to the process of international economic negotiation.

A counter argument may be that

there are no "sides" in multilateral negotiation; it is all an exercise of finding an overall balance. Following this argument, one sees a total imbalance when the agreements amount to giving up rights and assumption of new obligations by a large number of participating countries without any patent gains.

REASONS FOR THE WEAKNESS OF DEVELOPING COUNTRIES

There are both basic and operational reasons for the weakness of developing countries in international economic negotiations in general, and in the WTO in particular.

Basic reasons

To go to the root of the basic reason, one should first consider the sources of power and strength in this area: political and strategic strength, economic strength and the weight of numbers. With the possible exception of a very few countries, developing countries as a group do not have the first two sources. They have to depend on the third source of strength, but there has been no inclination among them to use it.

In the capitals of many developing countries, there is a lack of political vision regarding the need for solidarity. Some feel that they will be better served by strengthening their links with the major developed countries and appeasing them, rather than by a process of consolidation with other developing countries. A few among them have the notion that they are important enough to get better deals and more support from developed countries if they go it alone rather than in a group with other developing countries. A large number of the developing countries feel frustrated as they individually are too small to be effective and see no prospect of developing countries' solidarity and economic cooperation emerging in the near future, particularly in the WTO context.

In the capitals of many developing countries, there is a lack of political vision regarding the need for solidarity.

Yet another factor is relevant. Several developing countries which had taken the lead in forging solidarity have been facing serious domestic problems in political as well as economic areas. Attending to these problems is their first priority. They do not currently have much aptitude for an effective role at the international level.

Operational reasons

Descending from any expectation of greater solidarity among the developing countries, one can still see that working together in pursuit of their common objectives is relevant in limited areas for some countries. But even that is not a common practice.

The main operational reasons for the weakness of developing countries in the

WTO are lack of preparation, lack of adequate resources, general lack of concern in some cases, and intangible fear. These need to be elaborated.

Taking the last item first, most developing countries hesitate to annoy the major developed countries for fear of adverse economic and political implications. When major developed countries consider subjects important, they exert intense bilateral pressures on those developing countries which can be potential "spoilers of the game." Developing countries very often yield to these pressures.

Several of them feel that their economic prospects depend a good deal on relationships with the developed countries and try to avoid any irritant. The developing countries generally do not like to take a confrontational approach. There is a vague fear that the wrath of the economically powerful countries can have evil consequences.

Intense pressure from major developed countries on specific issues normally generates fear among individual developing countries, or groups of them, which sometimes translates into lack of concern for each other. Very seldom do countries of the South in general provide effective support to a developing country which is under attack and in need of peer support. Sometimes a few of them make supportive statements, but rarely do they influence decisions in an effective way.

On individual issues, some developing countries occasionally join a specific coalition with developed countries, yielding some gains which might not otherwise have been possible. This process has proved to be particularly effective in agriculture. However, the risk is that these developing countries may not find enough enthusiasm and support among other developing countries on other issues.

Of course, the most important operational reason for the weakness of the developing countries is their inadequate resources and lack of preparation, as will be elaborated in the next section.

TASKS AND STRATEGIC STEPS AHEAD

Given these reasons for the weakness of developing countries, what should be done to improve the situation? The reasons themselves suggest the tasks ahead for improving basic approaches and adopting some strategic steps. The key sequence of action for developing countries is to identify their interests, make thorough preparations in pursuit of those interests, pursue them jointly and in as large a number as possible, and in this process, make full use of their negotiating leverage.

Identifying interests and needed structure

Sadly, the developing countries have seldom identified their positive interests in the GATT/WTO system; however, they have been quite quick in identifying what is not in their interest. Perhaps the reason for this negative approach can be traced

The key sequence of action for developing countries is to identify their interests, make thorough preparations in pursuit of those interests, pursue them jointly and in as large a number as possible, and in this process, make full use of their negotiating leverage.

to the very functioning of the system. Generally the major developed countries have taken all the lead in putting up proposals. The developing countries have primarily used their energy and resources to analyse these proposals from their own angle, often finding them to be contrary to their own interests. They have naturally responded with a defensive approach, and often with a negative note. Of course, absence of prompt defense against some of these initiatives would have been very harmful. But limiting their energy to defense will not bring them positive benefit. To derive real benefit from the system, developing countries need to make positive proposals which would serve their interests.

In this continuing process, each country has to establish an appropriate institutional structure for identifying its positive interests and formulating the response to the serious proposals of others. Traditionally, the subject of GATT/WTO has been handled in different countries by the Ministry of Foreign Trade, or Foreign Affairs, or International Economic Relations. However, these days the subjects and implications of international proposals and agreements are too deep and broad to be within the jurisdictional, technical and professional competence of any one ministry in the government.

Further, most proposals and issues pose a clash of interests among the various interest groups in a country. For example, import liberalisation of a particular product may be against the interest of its producers but will benefit consumer or user groups, at least in the short term. Similarly, totally free entry of investment may benefit manufacturers and traders, who need additional funds; but it may have adverse implications for the domestic investors, the balance of payment situation, the regional balance of development, etc. In evolving a national position on a WTO issue, policy analysts must examine closely the implications for different interest groups and then arrive at a balanced stand from the angle of the interest of the country.

This task is difficult for any one ministry in a government to do through its normal process of analysis and examination. Instead it may be preferable to use a commission type of body, which will not be accountable to any one ministry. This body could draw on expertise, information, analysis and other support from various ministries concerned. It may need the support of some universities and research institutions in the country, working jointly or in a division of responsibilities, depending on the need. It would make its recommendations to the decision-making levels of government.

Naturally, the commission will have close interaction with industry and trade organisations and other interest groups, and take their views into account. Governments often consult with the apex bodies of industry and trade, but considering the complexity of WTO subjects and issues, the commission may need to consult also with the lower levels and with the organisations of individual sectors or activities.

It is necessary to have wide public debates and discussions on important issues and to involve and inform the press and other media.

When interests have been identified and positions formulated through such a comprehensive and transparent process, the result is greater strength for pursuing and promoting those interests in bilateral or multilateral discussions. Negotiators can operate with full confidence and conviction. There will also be a safeguard against any weakening in the negotiating process.

Preparation

After identifying interests and formulating positions, the next step is to prepare for formally or informally placing the proposals into the appropriate forum at an appropriate time. To make the proposals convincing is a dynamic process. Negotiators have to be prepared with counter-responses to the opinions and arguments other parties will present. And fall-back positions have to be worked out. In this difficult process, thoroughness and speed are essential. Here again, close collaboration is necessary with trade and industry representatives and with universities and research institutions.

Coordination with other countries

The next step is to seek coordination with other developing countries. In fact, in some cases, such coordination may be useful even in the stages of identification of interests and preparations. Any country acting by itself, is generally ineffective in the WTO, except if it is a major developed country. Countries with similar interests in specific subjects should come together to put forth proposals and pursue negotiations. Ideally all developing countries would come together on some subjects, at least in a few critical cases.

Some developing countries, having common interests and approaches in a number of subjects, may even divide up the responsibility for analysis and preparation on different subjects. They could even set up linkages among their relevant universities and research institutions for study and analysis in various subjects. Of course, findings by one country or research consortium must still pass through national processes of examination and consideration in partner countries; but a lot of labour and effort is saved if the initial work is shared.

Coordination among developing countries in the WTO involves an important process of mutual support. A healthy practice is for developing countries to support each other's proposals and positions, so long as it does no harm to national interests, rather than remaining neutral or silent on an issue. In this way, developing countries will gain strength of numbers, which each one may need at some time or another.

Participation in meetings and discussions

Once all these steps have been taken, it is important for countries to speak out clearly, firmly and boldly in formal meetings and informal consultations under the WTO multilateral process. In bilateral negotiations, the other side would generally coax a country into speaking and making its position known. In multilateral negotiations, a country is not forced by others to speak; but it is totally ineffective if it does not speak. A country that keeps silent is just ignored, and decisions are taken without considering its views.

Countries which oppose important moves of major developed countries may face threats of trade measures being instituted against them. But such threats cannot be carried out. Trade measures can only be taken against a country, including a developing country, if it is found to be violating its existing WTO obligations. No such measure can be taken for refusing to take up new obligations or for refusing to negotiate new issues. Any threat of trade action in such cases, issued covertly or overtly, is unjustified and entirely unenforceable. A developing country need have no fear on this account at all.

Often a developing country having the courage to oppose some proposals it considers harmful is subjected to well-orchestrated criticism that it is isolated in the WTO. Of course, support for one country's stand by some other countries is always welcome, but there is absolutely no harm in being isolated in the WTO, where a country has to look after its national interest. A developing country need not be alarmed or even concerned by such criticism. Of course, a country should not be obstructionist and oppose a proposal as a routine matter; but whenever its vital interests are involved, it must not hesitate in raising an opposing voice.

SOME BASIC APPROACHES AND COMMON INTERESTS

In addition to taking these strategic steps, developing countries have to close ranks in two important ways. First, they should have a political determination to work together in pursuit of their interests. Second, they should identify the points of their current strength and use them to get concessions in negotiations concerning international economic relations, particularly in the international trade arena.

General despondency and a sense of helplessness currently permeate the atmosphere among developing countries on international trade matters.

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They often resign themselves to being exploited, believing that nothing of particular interest to them will get done. What is really serious and damaging is that they accept the situation as inevitable and sincerely feel nothing can be done to change it.

This sense of frustration is natural, since they have been repeatedly ignored, threatened and even bullied in the past. But the game is not all lost. They have the power to change the system to serve their purposes and to stop their exploitation. But this requires a strong political will. And it depends on recognising that, though developing countries are at different levels of development ladder, they suffer from some common problems and handicaps. For example, all but a few of them have weak technological capacities, underdeveloped infrastructures, limited production and export bases, acute shortages of financial resources and limited stocks of trained personnel. Almost all of them have to depend on the governments, multinational corporations and the financial institutions of developed countries for many types of financial resources and technological development.

In attempting to solve these problems, the approaches of a large number of developing countries will be similar. Hence, full recognition of a common approach and strategy should not be difficult. Yet another factor may facilitate the forging of common approaches. For nearly fifteen years, developing countries have been targeted by the major developed countries for new commitments and concessions. In fact, one of the main objectives of the developed countries in the Uruguay Round was to obtain concessions from developing countries. In this process, the nature of negotiations has changed fundamentally for the developing countries. Earlier they were negotiating to get special benefits, whereas now they are negotiating as partners from whom commitments and concessions are demanded. This phase is naturally much more difficult and complex. When countries are merely seeking concessions, nothing is lost if the concession obtained is less than expected. On the other hand, when countries are asked to give concessions, they have to engage in an extremely complicated exercise of combining the need for minimum commitment from their side with the reasonable satisfaction of the demanding partners. In this pursuit, a large number of the developing countries have a common problem and a great degree of similarity of interests and objectives.

Countries which have not been targeted by demands so far should not be complacent, for their turn may come soon. It will be better for them to join their interest with the other developing countries at this stage, so that when their turn comes, they are not alone. Even the least developed countries have been made targets of demands. For example, restraints on textiles have been put on them too; in agriculture, though they are not yet required to reduce tariffs, domestic support and export subsidies, they have been subjected to the rigour of binding all of their agriculture tariffs.

Developing countries, even the very weak ones among them, still have some leverage and negotiating strength in international economic relationships. Earlier, their strength came from having some important commodities needed by industry in developed countries — for example, their assertion of rights to set petroleum prices. But now the developed countries have adjusted to this new price system, their industries are more assured of the necessary raw material supplies, and these factors have almost ceased to provide any great strength to the developing countries.

However, the very factors which motivate the developed countries to seek concessions from the developing countries provide leverage and negotiating strength to the developing countries. First, a large number of developing countries can potentially provide a good consumer base for goods and services from developed countries, as mentioned earlier. Second, the enormous size and variety of the bio-resources in developing countries are assuming new importance in science and technology, and may soon acquire a great deal of significance in new types of industrial production.

To put these opportunities into concrete shape, some work is needed on data collection and analysis so that these opportunities can be turned into openings useful to the developing countries in their political and economic dialogue with the developed countries.

The stakes for the developing countries

Considering the agenda of the major developed countries as explained in the beginning, developing countries have to realise that their process of development and even their economic survival is at stake. They cannot afford to remain indifferent to the emerging trends in the international economic relationship. If some of them feel that they will prosper and come out unhurt in this atmosphere, they may be in delusion. Sources of industrial and financial capital and also service providers, innovators and technologists in the developed countries are working in close liaison with their governments for a massive push to consolidate their gains in developing countries and win further new space. There is real fear that production and distribution capacities in the developing countries will continue passing into the hands of the transnational firms based in devel-

The developing countries have to carve out their own space in the international economic relationship, place their own agenda at the central stage and defend themselves against exploitation.

oped countries. Soon the economic and political sovereignty of developing countries may be eroded. Territories and space will not be gained or lost in the early twenty-first century by marching armies, but by the work of economic operators and agents. And those countries which ignore the danger are likely to be caught as prisoners in their sleep.

The developing countries have to carve out their own space in the international economic relationship, place their own agenda at the central stage and defend themselves against exploitation. Some modest suggestions have been given above to achieve these goals. These can be supplemented. Experience shows that developing countries have been effective in defending themselves when a large number of them have acted together. Some recent examples are: exclusion of the social clause from the WTO agenda in the Singapore Ministerial Meeting, and stopping the initiation of negotiations in the area of international investment in the WTO. On the other hand, when only a few of the developing countries have objected to certain proposals, they have not been successful in their efforts. A case in point is the proposal in WTO to start a study process on investment. Thus, the key to an effective positive approach or a defensive approach lies in a large number of developing countries acting together towards a common goal. In this they have nothing to lose, and a lot to gain. In absence of such perception and cohesion, they will suffer total loss. ■

Technological Implications of New Growth Theory for the South

BY STEVE DE CASTRO

A wide audience in the South needs updating on the new growth theories, especially on technological policy aspects. In simplest terms, these theories hold that the engine of growth is technological innovation, and economies which reward innovators grow faster. However, globalization raises many complications for technology policy-makers, so much so that a nation can become a passive backdrop for transnational flows. Author Steve De Castro, from the Department of Economics of the University of Brasilia in Brazil, has done technology policy and economic studies in several industries and for governments in the Caribbean, as well as research in several Northern countries.

IN THE LATE 1980s, growth theory returned to the center stage of economic research after being neglected for nearly two decades. Today, some of the most productive macroeconomists have turned to the study of why such a large proportion of the world's population still lives below some decently defined poverty line. In this century of so many technological innovations, it is a paradox and certainly a tragedy that income disparities within and across nations have become such an outstanding feature of world history.

Despite this return to growth theory, the textbooks used in the South are still dominated by the ideas and theories from the first flowering of the topic in the 1950s and early 1960s. Thus, a wide audience in the South needs updating on the new growth theories, especially on technological policy aspects in the broadest sense. Here the word *growth* will mean an increase in average income per person in the economy. Some authors refer to this as intensive growth

A wide audience in the South needs updating on the new growth theories, especially on technological policy aspects in the broadest sense.

and reserve the qualifier "extensive" to mean growth in total income or gross domestic product (GDP). If an economy grows by 3 per cent a year in GDP, it actually is not growing if its population is also increasing at 3 per cent per year.

OLD GROWTH THEORIES

Perhaps the first coherent growth theory which was stimulated explicitly by the increasing spread of incomes per person across countries was Arthur Lewis' two-sector model. It portrayed growth as a transfer of labor from a traditional sector, mainly but not exclusively agricultural, to a modern sector grouping relatively new processes such as plants and factories. Lewis claimed there was excess labor in the traditional sector because it operated in a precapitalist mode of family enterprises and farms which used more labor than necessary.

If all the surplus labor transferred to the modern sector, the productivity of all workers would rise to the new level, and the economy could then grow in a more market-oriented manner. But how to explain that several developed economies, such as France, Germany and Japan, continued to support a large, family-based agricultural labor force even after the second world war? According to Lewis, large parts of these economies would still have been in a mode where market forces are suppressed—an unlikely situation.

The dominant paradigm for three decades was Robert Solow's neoclassical theory, a general one that could apply to any economy, rich or poor. The basic assumption was that all economies had access to the same global technology in the form of a single production function which transformed labor and capital into GDP or total income. This does not mean they all had the same "mix"; some, with more capital per worker, would tend to use more capital-intensive techniques. In each economy, agents would save part of their income which, when invested, would increase the stock of capital. If capital grew faster than labor, then GDP would also grow faster than labor, and income per worker would rise. In our language, there would be growth.

Solow's reasoning had a dramatic conclusion: no matter where any economy started in the process of capital accumulation, no matter how high its saving rate, and no matter how low the growth rate of its labor force, each would eventually end up in a state of zero growth. GDP would continue to grow, but only at the rate of growth of the labor force, thus leaving income per worker constant. This happens because Solow supposed that if capital accumulates faster than labor, its productivity will fall, and each additional unit of savings will yield less extra output. Savings will eventually be sufficient to supply each new worker only the same amount of capital as current workers get.

The only way an economy could break out of this stagnation is technological progress—new methods and know-how which enable given amounts of capital and labor to yield more output and hence higher incomes. However, new growth theorists criticise this way out of stagnation. Under Solow's assumption that all markets function in perfectly competitive fashion, businesses and firms would as usual pay labor its market wage and capital its normal rate of return, but then have no revenue left over to pay innovators, inventors, researchers and the like. Not only did the technical progress come from outside the economy, but the theory could not find a way to pay for it. If all economies eventually must grow only at the rate of technical progress, which comes from outside each economy, then all would eventually grow at this common rate. This is the famous convergence hypothesis which has now been tested with postwar data (see "Econometric history" below).

NEW GROWTH THEORIES

In Solow's work, growth is exogenous because the technical progress which drives it does not use any of the economy's own resources. In contrast, the new theories separate out the activities which produce innovations, the cause of technical progress. These activities divert labor and capital from normal production to research and development (R&D). The more resources devoted to R&D, the faster the rate of arrival of innovations and the higher the growth rate. Growth becomes endogenous.

We saw earlier that if producers of normal goods operated in perfectly competitive markets, they would have no revenue left over to pay for innovations. The new theories argue that, for an economy to innovate and thus to grow, some form of imperfect competition must be present. Growth comes from profit-seeking behavior of producers and innovators, but, more important, they are seeking monopoly profits and not just the normal rates of return of competitive industry. Put like this, the obvious question is, didn't many previous economists say all this ages ago?

The new twist of the theory is to show how monopoly power drives growth. Monopoly power can emerge in a number of ways: producers form a cartel, for example, or government cedes operating rights for a particular activity to only one person or firm. However, if the monopoly derives from the creation of an innovation, the economy will grow. The monopoly may cause maldistribution of incomes. After all, the monopoly owners will receive a higher return. But this income effect clearly is considered the lesser evil.

Perhaps the simplest way to explain how the new theories differ from the old is to show how they would regard investment. In the older theories, accumulation of capital was seen as the engine of growth. The more Keynesian economists tried to understand how investment was determined, but economists like Arthur Lewis and Nicholas Kaldor concentrated on how to generate increased saving to finance the required investment, which was taken for granted as an obvious suppressed demand in the South. Poor economies were seen as savings-constrained. Kaldor in particular saw the link between the level of saving and the distribution of income. Since the richer households were likely to have higher saving rates, it was probable that a distribution skewed in favor of the rich would generate more savings than an equitable one.

The low saving ratios of the US and certain other developed economies should certainly cause some deeper thought. Some would want to argue that this may be the cause of the relatively low growth rates of the US economy in recent times. Others may claim it is the social and technical efficiency of its investments, which do not require high saving rates to generate growth. For example, 40 per cent of US investment is in computers, not a sector one associates with high capital intensities when compared to, say, petrochemicals or electric power generation.

Looking at this debate between the Keynesians and the development economists, the new growth theorist would, first, say that the fundamental determinant of all investment, whether in physical or human capital, is the flow of innovations in the economy; and second, claim that these innovations are not exogenous but motivated by profit-seeking.

To illustrate, the new growth theorist would not regard replacement of an old machine by a new one, almost identical, as innocuous, without links to any innovation. If the new machine, however lacking in new features, were not capable of yielding productivity increases and thus higher profits, the owner would not replace the old one. The fact that the new one is not radically improved would indicate, for the theorist, that the particular industry had a low rate of innovation. If this is symptomatic of all the sectors in an economy, then it would have a low growth rate, no matter how high the investment and saving rates may be. The engine of growth is technological innovation, and economies which overcome the difficulties of rewarding innovators for their efforts would grow faster.

In the postwar period, some high growth economies, especially the Asian "tigers", have exhibited very high saving ratios, at times over 30 per cent of GDP, accompanied by very low spending on R&D. The new theories would suggest that either they are imitating, copying or buying the innovations of other economies, or there is a problem in their growth accounting.

ECONOMETRIC HISTORY–THE STYLISED CONCLUSIONS

Everyone agrees that the innovations associated with Britain's industrial revolution were the inspiration for the growth which eventually led to high incomes for some countries. However, it is now believed that other innovations, in agriculture and in cottage industry, were occurring in some economies both before and concurrently. Research on Japan before Meiji (1868), for example, indicates that its income per head was already probably at the level of Britain's, even before its late industrialization after Meiji. Some other countries (Australia, Argentina) achieved high incomes by mid-century without significant industrial activity. Industrialization may not have been the true mother lode for growth, but rather only one form that innovations can take.

Since around 1950, data are much improved, allowing the convergence hypothesis implicit in Solow's work to be tested and found false. However, convergence seems to be occurring in western European countries and Japan, partly through a technological catch-up with US labor productivity; and also in some middle-income countries, such as Venezuela, Chile, Argentina, though not in income per head, because investment did not keep up with population growth. Why is this only happening now in western Europe and Japan, five decades after the second world war? Some economic historians suggest it has taken them this long to master the US structure of corporate capitalism and large bureaucratic oligopolies, as opposed to the competitive markets of owner-driven factories as in 19th century Britain. The argument, however, is yet to be tested formally.

Again, empirical work with the Asian "tigers" produced no common, clinching feature to explain their performance. True, they all emphasise exports and education, but even those policies differed considerably across governments. In Korea, for example, higher education was almost completely a private initiative, while exports had heavy government intervention.

As for econometric testing of new growth theories as formal hypotheses, perhaps the most damaging is a study by Charles I. Jones [1995]. It showed that, despite exponential growth in the number of scientists and engineers engaged in R&D in recent decades in the US, France, Germany and Japan, their growth rates have not experienced any concomitant permanent increases.

Industrialization may not have been the true mother lode for growth in the 19th century, but rather only one form innovations can take.

Either the theory is false, or there must be some mechanism in these economies which is not allowing the increase in R&D to be passed on, through innovations, to the growth rates. One possibility is a fall in the productivity of their research. Another idea is being pursued in the present author's research. The idea is that a second process is present in any economy, from the consumer's side rather than the producer's, which can resist or retard the rate of adoption of innovations because it may be too fast for social efficiency. If this is true, then despite high R&D rates, certain countries may not exhibit high growth rates because gains from innovations have dissipated through delays in adoption caused by various consumer-side checks, directly or through the government. Institutions in the US like the Environmental Protection Agency, the Federal Drug Administration and numerous consumer-side pressure groups all come to mind. Neither hypothesis has been tested.

In the South, the proportions of GDP spent on R&D are generally minute. Some econometric studies have substituted education levels, literacy rates and so on. From these, there is some indication that low educational enrollments are a substantial impediment to growth there.

TECHNOLOGICAL ASPECTS OF THE NEW THEORIES

Since growth is about the whole economy, care is needed when analyzing the technological effects on a particular sector or industry. Before reaching for conclusions about whether or not the innovations in a sector are generating growth in the overall economy, it is essential to do the complete set of accounts. This caution is important because innovation can have unintended effects. One effect is reflected in the popular refrain that it will put people out of work. Another effect, more subtle, is that innovations can affect the prices of certain commodities—for example, food—so much that they cease to be significant generators of income and employment in a modern economy. Agriculture, perhaps the most known case of this phenomenon, can be used to sketch how we need to do complete, more general, social accounting in order to study growth.

Agriculture ties together the two sides of the argument in a more complex way than usual. When an innovation enters a sector, costs of production and hence prices will fall, which should normally increase demand for goods from that sector. This may sometimes compensate any loss of jobs directly caused by the innovation. However, this may not happen; there may be a net loss of employment in the sector, and yet the economy can continue to grow at full employment. Agriculture, the dominant sector in almost all economies when growth began, today hardly employs 5 per cent of the labor force and yields about the same percentage of GDP in the richer countries. Yet any unemployment existing in such economies has long ceased to be attributed to changes in their agricultural sectors. In fact, their manufacturing sectors have been undergoing a similar transformation, with falling proportions of employment and GDP in most countries for decades, e.g. the US. They are becoming or have become post-industrial. Yet these economies have continued to exhibit growth, and at seemingly full employment most of the time. New goods and services which did not exist before are being introduced continually.

We saw earlier that, although many economists spotted profit-seeking as the driving force in market economies, few were able to show clearly how this competitive behavior could lead to growth of the whole economy. The competition could lead to a situation where, loosely speaking, each agent's competitive strategies exactly cancel out the other's, leaving the economy standing still. Schumpeter was probably one of the earlier economists to perceive that competition alone was not enough, and that some form of monopoly profits had to be introduced to get growth. He also perceived that each monopolist, earning super-profits with a new good or technique, would attract other innovators. Seeking such profits in turn, they would try to better the technique or good and so destroy the base of the previous monopoly, but replace it with another. Schumpeter dubbed this a process of creative destruction, an oxymoron if there ever was one.

The contributions of the new theory were, first, to formalize how this apparent contradiction could generate growth, even though each innovation destroyed the one which came before it. Second, it helped us understand under what conditions the growth it generated can be socially efficient and not just enhancing of the profits of a monopoly. This second point is especially of interest to a poor economy, desperate for growth no matter the cost.

The growth rates generated by untempered profit-seeking can be too fast or too slow from the point of view of social welfare, because each innovation is won at a cost to society. Resources had to be diverted to its development, sometimes by formal research institutions and firms, but other times by quite informal or hidden ways—subsidies, protection from foreign competition, even burning the midnight oil. Now, the innovation must repay these social costs during its useful life. If it is killed off too early by a subsequent innovation, then this could generate a growth rate which, on an economy-wide scale, is too fast. Consumer-side resistance here would increase social welfare. On the other hand, if its life is prolonged beyond repaying its social costs, just so it can yield super profits to the monopolist who introduced it, then scaled up to the economy-wide level, this would yield a growth rate which is too slow by a social welfare measure.

All this sounds rather abstract, but it comes down to its most practical level with the following simple question: what should be the optimal life of a patent? A patent is protection granted by the society, to an individual agent or firm, of a monopoly right to exploit a discovery for a fixed period of time. The longer the period, the greater the incentive to the innovator. The shorter it is, the lower the cost to consumers who would have been paying the monopoly price for the product.

It is not easy to answer this question, even for a single industry, much less at the level of the whole economy when trying to assess whether the result induces efficient growth. Medicines provide a dramatic example of the conflicts. For many decades in this century, an international treaty required governments not to grant any patents, nor to protect other countries' patents, for medicines. The rationale was that medication can be a matter of life or death and such producers' monopolies should not be given protection by the society, a view now questioned.

The insertion of an innovation into an economy, then, may very well cause disruptions in its sectoral balance. Some sectors may increase their contribution to total income and employment, while in others the opposite may occur. The ambiguity disappears if one is convinced that the increased productivity an innovation generates in one sector would make all real incomes grow by reverberating onto other sectors, through increased demand for all goods, both old and new. Any accompanying unemployment would be seen as temporary, in some cases even voluntary, as workers may seek retraining to take advantage of the higher wages paid by the new technologies.

In all this apparently strong defense of the benefits of the free working of markets, we have largely avoided so far a major issue in the new theories—that technological innovations have many attributes of what economists call a public good, and public goods are treated as serious sources of market failure, at least in introductory texts. The clue to the dilemma is obtained from the following innocent question about patents: if the innovator really has a new and superior product or technique, why does it need protection from a patent? Monopolists, even in societies committed to laissez-faire like the US, are not tolerated highly. Anti-trust laws and regulatory bodies are examples of institutions set up to temper monopoly power, not to create it, much less with such an instrument as a patent.

The answer lies in the ability of other producers to copy or imitate the product or technique without having to pay the innovator. For many innovations and unlike normal goods, inventors are unable to establish property rights over their inventions. Whereas it may be obvious that it is socially efficient to help consumers of durables maintain their property rights, it is not so clear in the case of innovations. For new growth theory therefore, innovations cannot be treated like physical capital goods. The issue is still in progress, and no final answers are available. Romer [1994] has argued that new knowledge must be treated more like a public good because each innovation can be utilized simultaneously by many producers at no extra cost to the innovator. Public goods can be financed by markets, but the legal and transactional framework required is substantially more complex, and the mechanism may well be socially inefficient.

IMPLICATIONS FOR TECHNOLOGY POLICIES IN THE SOUTH

Since the main focus of the new theory is technological progress, anything useful which can be said now must relate to the microeconomic aspects of innovations, taking for granted their contribution to growth. Scholars examining the technological implications of the new theory quickly descend to the sectoral level. The key argument is whether such sectoral innovations contribute to, or are socially efficient generators of, growth in the global economy. Outlining a few ideas and views will help to guide a policymaker through the debate.

One extreme view is that economic agents who contribute to advances in knowledge have found myriad ways to appropriate the fruits of their labor, to the extent that the advance is clearly attributable to them. Even when this is not possible, such workers, it is claimed, group themselves into institutes, research centers, laboratories, firms even, such that their collective benefits can be shared efficiently. This position was held by Ronald Coase, who defended the idea that certain positive externalities generated by some economic activities are recognized as such by their beneficiaries, who are usually willing to pay the perpetrators. The example is often used of beekeepers whose bees pollinate farmers' crops and increase their yields; a study found that farmers paid the beekeepers, and in amounts closely related to the values of their extra yields.

However, the most insightful comment on Coase is the prediction that such externalities would not be observed often. They would be grouped by agents into a single organization—a research center or firm—where spillovers from one subgroup to another can be managed equitably and efficiently. In a correct application of the idea, the R&D organization should be a profit maximizer, and not some other entity such as a university institute or nonprofit foundation.

In the notion of globalization lurk complications for technology policy-makers.

A more balanced approach would seem to be to try to separate R&D into two types: fundamental research, as in the natural sciences and pure mathematics; and applied research, more linked to specific marketable goods and services. Unfortunately, this dichotomy has largely broken down in the last decades, and both public and private funds are found in the budgets of research outfits in both categories. Sometimes these declare themselves to be nonprofit, other times not.

Further complications for technology policy-makers lurk in the notion of globalization. It has been argued that globalization is not simply trade liberalization, but rather a process by which firms and nations become exposed internationally to a series of intangibles such as know-how, synergies, and generalized information flows, few of which are formally traded like goods. Some of these transnational or globalized flows are so strong in certain sectors and regions of national economies that they have led to the emergence of a mosaic of sub-national poles. Each pole is so strongly linked to the others internationally, through their product-based, technological learning systems, that the nation becomes a passive backdrop for them.

Strong transnational flows—for example, in telecommunications, pharmaceutical research and computer software—make the nation into a passive backdrop.

There are certainly one or two sectors where the extreme situation seems already a reality. Telecommunications come to mind at once. Another is pharmaceutical research, where the discovery and testing of new medicines is being spread out over several countries in a complex mix of privately and publicly funded activities. A third is the area of computer software and programming. To the extent that production of knowledge becomes an industry, and that industry comes to dominate an economy, as several authors claim is the case for the US and some others, then public policy about R&D activities can truly be said to be in a mess.

In the face of these dilemmas, it is only prudent to suggest that governments in the South, referring to national ones while they continue to exist, ought to concentrate on fostering public, mass, general education to as high a level as the economy will bear. If knowledge production is becoming an industry, then education cannot but be a major input to it, and may well be threatened with industrial status in the process.

This may seem an innocuous suggestion. But it appears to be a tall order for many administrations, especially as the education system grows and becomes dominated by the more expensive, secondary and tertiary levels. Entrenched positions on how to finance these should be avoided. Education always has an element of income redistribution, taking from the relatively better off to finance the development of the children of the not so well off, a public sector activity which clearly requires the most delicate of political skills. This may be because education, in many ways, is not a public good at all. Most of its benefits, especially at the higher levels, are appropriated by the individuals who receive it, in the form of better paid jobs. Since almost all states accept the task of providing some fraction of perceived educational demands, one explanation may be that there could be some market failure involved with the financing of each individual's schooling. Another reason may be precisely the redistribution effects which are sought rather than social efficiency. This too, like so many others, has become a topic for specialists.

Another practical suggestion is for governments to avoid sector-specific policies, especially notions of fostering industrialization, a task dear to the hearts of the first generation of development professionals. Even middle-income countries now have more than half their GDP in the tertiary sectors, and this proportion is growing. Looking for the mother lode of growth in any one sector is not likely to be a successful endeavor. As for governments which, for lack of theoretical criteria, have tried to spot and foster sub-sectors which can be technological winners, the empirical results have shown this to be largely a hit-and-miss affair, even for Japan's much admired MITI, and one which can be very costly.

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However, whenever a potential nonrival innovation is identified, whose benefits are clearly not appropriable by its possible developers, a government should not hesitate to set up publicly funded research and extension services for its creation and diffusion. The best known historical example is the US federal and state governments' creation in the late 19th century of land-grant colleges focused on agricultural research and extension. It is not a perfect case, because much of this research can be and is now done by profit-seeking firms. The intensity or scope may not of course be at the right levels for social efficiency, if its gains are not fully appropriable.

This article at times has been so equivocal that I am reminded of the story of a prime minister in the South, who longed for the day when he could have as an advisor, what he called a one-handed economist, not given to such phrases as "on the other hand..." which left him as baffled as before, about the correct policy to adopt. Without apologies, this article, at least in its policy suggestions, was written with two hands. One can only hope it will not leave prime ministers baffled. ■

Further reading on economic growth

An insightful world economic history, which finds growth episodes as early as the Sung period, is Eric Jones [1988]. For after 1800, see Easterlin [1996] who, unlike Jones, finds growth only after "the scientific revolution." A creative introduction to current theory is Paul Romer [1994], who says knowledge should be treated like a public good, not physical capital. The only textbook that covers new theory is Barro & Sala-i-Martin [1995], who use lots of mathematical models and econometrics meant for specialists. Peter Howitt (ed) [1996] specifically covers the technological issues of the new theory, treating some sectors (telecommunications) and one country (Canada) interestingly.

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Expanding Lateral Partnerships

BY STEPHEN BROWNE

Regionalism is in vogue. It involves three main types of partnership—protected regionalism, open regionalism and micro-regionalism. All are frameworks for expanding lateral—as opposed to vertical—forms of development cooperation. The phenomenon, its significance, and examples of functioning regional cooperation are explored by Stephen Browne, who is the United Nations Development Programme Resident Representative in Rwanda.

"WE BELIEVE that economic integration, investment and free trade are key factors for raising standards of living, improving working conditions and better protecting the environment...we are confident that the Free Trade Area of the Americas will enhance the well-being of our peoples." Declaration of Santiago, signed by 34 heads of state at the conclusion of the Summit of the Americas, April 1998.

During their annual summit meeting in 1996 in Lyon, the Group of Seven industrial countries (G-7) devoted a lot of attention to the international development agenda, at the instigation of the host country. Alongside the more familiar reaffirmations of commitment to aid, the final communique referred to the "fundamental responsibility" of the developing countries for promoting their own development, and stated that "it is in their interest to commit themselves actively to the multilateral system and to promote regional cooperation".

Regionalism is not new to the global agenda, and it is more and more frequently bracketed with globalization. All forms of political and economic cooperation are receiving a higher priority among countries in all regions and at all levels of development. It is also significant that the G-7 should have chosen to highlight regional cooperation in a statement on the future of aid, acknowledging the growing importance of intercountry partnerships in parallel with more dependent relationships.

Regionalism is in vogue. There are a few examples of long-established regional groupings that have become stronger over time—notably the 15-member European Union and the 9-member Association of South-East Asian Nations (see box). But many of those established over the last three decades have been short-lived or have retained mainly symbolic political significance. From the late 1980s, however, there has been a growing commitment to regionalism, for a number of reasons.

First, regionalism reflects an increased understanding of the importance of trade and economic openness. Inward-oriented development and self-sufficiency—a concept traditionally espoused by state-controlled economies—are terms disappearing from the development lexicon. Even Russia and the four largest continental developing countries—Brazil, China, India, and Indonesia—have recognized the need to widen their markets. These "big five" account for half the world's labour force of 3.5 billion people, but only 8 per cent of world exports. All five have shown interest in regional cooperation in recent years. At the other end of the scale are the small states—87 independent countries, out of a total of 193, have fewer than 5 million people; for them, membership of regional blocs can provide economic openness without exposure to the full blast of global competition.

A second allied reason for regionalism is globalization. The real world is perceived as increasingly borderless, and competitive boundaries between transnational corporations count less than national boundaries. Thus, while regionalism receives official recognition in formal intergovernmental agreements, it is also manifested in the rapid expansion of privately sponsored cross-border economic activity.

Third, in many parts of the world, there is a more conciliatory political climate. The Cold War kept many neighbors at political odds. In its aftermath, old ideological enemies and political rivals are more willing than before to collaborate. Countries of the Warsaw Pact are now joining the North Atlantic Treaty Organization (NATO) and seeking membership of the European Union. In West and Central Asia, there is a new Black Sea Economic Cooperation forum. The Economic Cooperation Organization expanded its membership in 1992 to include all the newly independent countries of central Asia. The arrival of full democracy in South Africa also gave a new lease of life to the Southern Africa Development Coordination Conference, renamed a Development Community in 1992. There have also been examples of stronger regionalism in East and South Asia.

Fourth, regionalism reflects collective solidarity in trade. When the latest global trade negotiations—the Uruguay Round—began in the 1980s, there were widespread hopes that they would be completed within a few years. In the event, although the Round went further than had originally been anticipated, there was much frustration at its slow pace, prompting many countries to take a 'sub-globalist' route. The creation of MERCOSUR in 1991 by Argentina, Brazil, Paraguay and Uruguay (see box), and the expansion of the US-Canada free trade area to include Mexico in 1993 and form the North American Free-Trade Agreement (NAFTA) were both examples of regionalism as a subset of global tariff-cutting. In global negotiations, moreover, regionalism also encourages the formation of collective negotiating positions, likely to have more weight in the overall balance.

This article examines regionalism, and the different types of partnership inherent in regional cooperation arrangements, more closely. The purpose is to review the growing importance of such partnerships as frameworks for expanding lateral—as opposed to vertical—forms of development cooperation.

THREE TYPES OF REGIONALISM

Regional cooperation takes various forms which do not lend themselves easily to categorization. This article describes three different forms of economic cooperation—protected regionalism, open regionalism, and micro-regionalism—which cover the most important manifestations at the regional level. All forms of regionalism assume that some measure of cross-border cooperation is a superior alternative to purely country-based economic systems. The forms differ in several important ways, however, including the extent to which regional arrangements are dependent on government initiative.

Protected regionalism: the preferential trading arrangement

Most regional cooperation arrangements focus on trade, and they are very numerous. By 1997, the World Trade Organisation (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), had been notified over the years of no fewer than 144 regional trade agreements, of which some 80 were still in force.

The majority of these agreements fall into the category of preferential trading arrangements (PTAs). We have chosen to describe them as 'protected' regionalism, for reasons which will become more evident below. PTAs are usually formed among limited numbers of countries, with the specific purpose of fostering more trade within the grouping. They do this by lowering tariff and other trade barriers, streamlining border administrations, setting up common recording systems and nomenclatures for traded goods, and so on. In a customs union, common external tariffs are raised against goods imported from nonmembers.

The potential advantages and disadvantages of PTAs for the participating countries can be described in both 'static' and 'dynamic' terms. Static factors are those resulting from once-for-all resource reallocations, while dynamic factors are the continuing and longer-term changes that can be ascribed to regional cooperation. In PTAs, static gains and losses depend on how much trade has been created, rather than diverted or suppressed—the net economic advantage.

When a PTA is established, the members agree to lower the tariffs on certain items traded among them, thus reducing their costs. In a customs union, the members establish common external tariffs on some items traded with non-members; these tariff levels are usually higher than those prevailing before, and result in higher costs of those items in the markets of the members. Trade is created when a partner replaces goods produced at a higher cost domestically with goods produced at a lower cost by a partner. Trade is diverted or suppressed, however, when a partner replaces goods produced at a lower cost outside the union with goods produced at a higher cost domestically or by a member country.

Because of the complex politics of the region, ASEAN has evolved cautiously for most of its history. The first and second summits of heads of government did not take place until 1976 and 1977, the latter as a commemoration of the first 10 years. Since 1995, there have been formal or informal summits every year. There is also an elaborate administrative and committee structure which ensures frequent contacts among ASEAN representatives, through more than 300 meetings per year. The ASEAN Ministerial Meeting (AMM), comprising the Foreign Ministers, is responsible for strategic policy and coordination and meets annually. Economic cooperation is the responsibility of the ASEAN Economic Ministers, also meeting annually. Both these committees report to the ASEAN Summits. The most active policy body is the ASEAN Standing Committee which meets more frequently and reports to the AMM. There are also many committees and forums in sectoral, technical and cultural areas, coordinated in each member country by national secretariats in foreign ministries.

For the cohesion of the grouping, however, one of the most important developments in recent years has been the upgrading of the status of the ASEAN secretariat in Jakarta. In 1992, the position of Secretary General was elevated to ministerial status, and the secretariat has since been restructured and expanded to include 32 internationally recruited professional positions.

Underlying the elaborate political and administrative structure of ASEAN, however, is a dynamic process of economic interchange, which predated the formation of the grouping. The people of the original ASEAN countries have been collaborating actively in economic terms for many years.. The main common element is the entrepreneurial Chinese diaspora, who are prominent in the private manufacturing and service sectors. ASEAN's first objective—"to

ASEAN—THE MOST ENDURING ASIAN PARTNERSHIP

The Association of South-East Asian Nations commemorated its thirtieth anniversary in 1997. Although the celebration was muted by the economic difficulties facing several of its members, the anniversary was significant because ASEAN has demonstrated continuity and has grown, albeit unsteadily, in depth and breadth since its inception.

Politics and security considerations first brought the five founding members of ASEAN together—Indonesia, Malaysia, Philippines, Singapore and Thailand—with the signing of the Bangkok Agreement in 1967, during the war in Indochina. It was initially an anti-communist alliance, and there is thus some irony in the fact that, following the adherence of Brunei in 1984, the seventh member of ASEAN was Vietnam, in 1995. Laos and Myanmar joined in 1997, and Cambodia is expected to become the final Southeast Asian member in 1998. Economically as well as politically, expanded membership has greatly altered its complexion. It now comprises at least three income tiers (with Brunei and Singapore at the high end, Laos, Myanmar and Vietnam at the low end, and the others in the middle) and different economic systems, mixing very open economies with enclosed transitional ones.

accelerate the economic growth" of the region—is largely being accomplished outside the official purview of the grouping. However, the process of economic integration is being assisted by the lowering of trade barriers. This was a very gradual and hesitant process during the first two decades of ASEAN's existence and had little impact on trade patterns in the region (ASEAN accounts for only 22 per cent of trade among the members). But in 1993, the members agreed to establish an ASEAN Free Trade Area, phasing out tariff and non-tariff barriers by the year 2003 (for the new members, it will be 2008). For a market of 470 million people—substantially larger than either the European Union or the US—this facilitation process will be an important stimulus for both trade and investment within and into the region.

In terms of customs union theory, the benefits of ASEAN are clearly more dynamic than static. Some of these benefits were not anticipated, but they serve to underline the importance of regional partnership. While the poorly planned expansion of the membership has now brought into the grouping several members with very different economic records, there could be important 'dynamic' benefits in terms of encouraging the new members to adopt more liberal and outward-looking economic policies in order to gain maximum benefit from their inclusion in a dynamic and progressive economic space. In this regard, ASEAN membership is likely to have an impact at least equal to the programs of development assistance being provided to the transitional countries individually. Practice is always easier to emulate when it is next door.

ASEAN has also begun to promote the concept of open regionalism. In 1994, the grouping established the ASEAN Regional Forum. It brings together the nine member countries, Cambodia as an observer, Papua New Guinea as a 'special observer' and ten dialogue partners (US, Canada, Japan, European Union, Russia, China, India, Korea, Australia and New Zealand). The Forum has no economic agenda, but is designed to promote dialogue on preventive diplomacy and confidence-building in the region. The EU is ASEAN's oldest dialogue partner, and there have been attempts in recent years to build closer ties with Europe. The first formal meeting of the Asia-Europe Meeting was in early 1997 and is intended to become an annual event.

It is rational for countries to enter into trade agreements when the lowest cost producers of traded goods are members of the grouping. In practice, this is rarely the case, and adherents to PTAs are often faced with higher costs of essential items. An example is provided by Britain, when it joined the European Community in 1973. Britain had been a large importer of food from low-cost producers in Australia and New Zealand and was obliged to phase in larger tariffs on food from these sources, switching to higher cost producers in Europe. The EC led directly to a significant diversion of trade and a substantial rise in food prices in Britain.

There are other potential 'dynamic' gains from trade within PTAs. To the extent that trade is increased among neighbors, transport costs are lowered. And regional agreements usually go beyond tariff reduction to facilitate the freer movement of goods among members. There are also advantages in terms of rent gains for exporters who can sell their products inside the union at higher prices, equivalent to the world price plus the common external tariff. Regional trading blocs have been described as 'natural' partnerships, since neighbors could be expected to trade disproportionately with each other even in the absence of formal arrangements.

There are gains from operating within a larger protected market, which offers what has been called the "internationalisation of protection". From the 1950s, the idea has been prevalent of using trade cooperation to allow infant industries in member countries to benefit from larger markets protected from competition by more efficient lower-cost producers outside. On the assumption that this protectionism is gradually diminished over time, these economy-of-scale arguments are among the "dynamic" advantages attributed to PTAs. Other advantages may be derived from the joint development of infrastructure (regional transportation and communication networks) as well as pooled research efforts.

In practice, the determination of gains and losses in PTAs is highly complex. For example, there are enormous ambiguities associated with "rules of origin". In today's globalized economy, more and more manufactured goods are produced with raw materials and parts from several different countries. When these parts originate outside a regional grouping, they may attract tariffs—or they may not if they benefit from foreign investment incentives. Tariff-free or otherwise, these externally sourced materials and parts make the final traded product partially "foreign" to the trade grouping. Should such products benefit from the lower tariff privileges of the PTA?—wholly, partially or not at all? These questions have to be answered by carefully negotiated rules of origin. Other consequences of PTAs which have to be weighed in the cost-benefit balance are losses of tariff revenues, which can be substantial for some countries. For example Mexico, which has traditionally maintained rather high tariff levels, will lose considerable income from this source through membership of NAFTA, although Mexican producers and consumers will benefit from less costly American and Canadian goods.

There is a lively debate among economists about whether regionalism should be considered an alternative to, or a precursor of, multilaterism: a stumbling block or a building block.

With the conclusion of the Uruguay Round and the replacement of the GATT with the World Trade Organisation (WTO) in 1995, more virtue has been made of multilateralism. For global trade liberalization, tariffs cut in favor of one country, must be cut for all—the Most Favored Nation principle. PTAs, and especially customs unions, abrogate these rules. Yet when the rules of trade were written into the GATT in 1947, they included Article XXIV, which permits the formation of PTAs and customs unions as long as they eventually lead to the complete elimination of discriminatory tariffs.

For the freetraders, Article XXIV is seen as an aberration. In practice, PTAs have been quick to raise trade barriers to countries outside a grouping, and slow to phase in trade liberalization. There is a lively debate among economists about whether regionalism should be considered an alternative to, or a precursor of, multilaterism: a stumbling block or a building block.

The verdict is bound to be ambiguous. In some cases of protected regionalism, such as the European Union, the

MERCOSUR - THE FASTEST EMERGING REGIONAL COOPERATION ARRANGEMENT

The Common Market of the South (MERCOSUR) brings together Argentina, Brazil, Paraguay and Uruguay, and was created by the Asuncion Treaty of March 1991. It was formed at a time when the Latin American countries were frustrated at the slow pace of multilateral trade negotiations, yet saw regional integration as an important step towards economic openness and trade promotion.

The pace of progress has been impressive. The first three years were a period of transition, but by the end of 1994, the member countries had eliminated tariffs on 90 per cent of regional trade. During that period, the value of trade among the four countries was estimated to have grown from less than $3 billion to $12 billion per year. Intra-MERCOSUR trade in 1996 accounted for 22 per cent of total exports, compared with less than 10 per cent in 1990. The grouping is also the only major customs union outside Europe. It has established a common external tariff, covering about 85 per cent of imports from outside the region, which came into force at the beginning of 1995. The tariff schedule will be fully harmonised over the next ten years.

The MERCOSUR countries have a combined population of over 200 million, a total GDP of over $800 billion, and trade (in either direction) of over $70 billion per year. The grouping is thus an economic force of some consequence. In addition to creating a substantial amount of additional intraregional trade, the grouping has also been a spur to incoming foreign investment, as companies have sought to benefit from a large and dynamic market.

The highest authority of MERCOSUR is the Common Market Council, comprising the Ministers of Foreign Affairs and Ministers of Finance. In 1996, the grouping took the important step of establishing a secretariat in Montevideo, and a development bank to finance integration-related investment projects.

Also in 1996, MERCOSUR signed free trade agreements with its two associate members, Chile and Bolivia, and is negotiating with Latin America's other important trade association, the Andean Group, about further expansion. An eventual merger of the two blocs could lead towards an FTA in the whole subcontinent. There is also a plan for a Free Trade Area of the Americas which would link all 34 countries of the continent. In this direction, there is a growing number of bilateral trade liberation deals being negotiated, for example between Canada and Chile, and between Mexico and several Latin and Central American countries. A continuing impediment to further trade liberalization is the denial of 'fast-track' negotiating authority to the US Government. However, there is no doubt that in the Americas, regional trade agreements are proving in the 1990s to be stepping stones towards continent-wide liberalization. ■

path of economic and political integration has clearly taken precedence over multilateralism, and the two processes are increasingly in conflict. The EU's elaborate system of agricultural protectionism, designed to support the incomes of Europe's high-cost farmers, proved to be a major stumbling block in the finalization of the Uruguay Round of global trade negotiations. But the existence of the WTO, its much larger membership (than the GATT), its rules of procedure, and its dispute mechanisms are putting considerable pressure on Europe to unravel its Common Agricultural Policy. The Caribbean Community (CARICOM) and the Central American Common Market (CACM), among other groupings, have also made significant progress in recent years towards lower common external tariffs.

Within regional blocs, the trends are towards internal trade liberalization first and gradual external liberalization later, and toward the building of closer links between different trading arrangements, particularly within the same continents. These trends suggest that the fashionable process of protected regionalism through PTAs can contribute to, rather than detract from, a gradual global liberalization. There are beneficial dynamic processes of lateral cooperation, in other words, that reach beyond the boundaries of the existing groupings.

But protected regionalism is nonetheless discriminatory. While the formation and consolidation of PTAs are an embodiment of the partnership principle in development, there are two other kinds of 'open' cooperation—one sponsored by governments and the other not—which deserve increasing attention, and which have important implications for the future of development assistance.

Open regionalism: the APEC example

Regional cooperation which promotes the benefits of closer regional ties, but without selective or discriminatory trade measures, is a broad definition of open regionalism. But open regionalism—as well as many examples of the protected variety—also goes beyond trade to embrace other forms of cooperation. The Asia Pacific Economic Cooperation (APEC) forum is the best current example, which could prove to be a model for regionalism elsewhere.

APEC was an initiative promoted by Australia in 1989, partly inspired by the experience of the quasi-governmental Pacific Economic Cooperation Council (PECC). APEC embodies the vision of a dynamic "Pacific rim" emerging in the next century and constituting the major global economic dynamo. With a membership of 21 countries—spanning rich and poor and including the three largest economies—APEC accounts for 55 per cent of total world output and almost half of world trade. It is not so much a region as a hemisphere. At its inception, the grouping was considered rather large and amorphous, and its impact was uncertain. However, just as the US conversion to regionalism gave impetus to NAFTA, its interest in hosting the first informal summit (of "economic leaders") in Seattle, Washington in 1993, vested APEC with increasing importance. At subsequent annual summits, significant progress has been made in forging the basic principles of open regionalism.

Seattle laid down some principles of partnership. These were to be based in large part on harnessing private enterprise in order to raise the general level of prosperity throughout the region. Exhortation led to a "declaration of common resolve" the following year in Bogor, Indonesia, in which the leaders made a commitment to achieve "free and open trade and investment" in the region by the industrialized members by the year 2010, and by 2020 for the rest. The important feature of APEC trade liberalization, however, is that it aims specifically to reduce protectionism in the region and between the region and other countries and groupings. It is thus a large interest group of one-way liberalizers, contributing directly to freer trade and investment flows globally.

The Osaka Action Agenda, agreed in 1995, was a blueprint for the process of trade and investment liberalization, and began to develop the principles of broader "economic and technical cooperation". The summit in Manila in 1996 determined further that cooperation was to be concentrated on six themes: developing human capital, fostering efficient capital markets, strengthening economic infrastructure, harnessing technologies, promoting environmentally sustainable growth, and encouraging small and medium enterprises.

The added dimension of economic and technical cooperation is significant for a number of reasons. First, it is set in the context of a substantial and globally representative grouping of countries comprising a range of development levels and resource endowments. Second, development cooperation is seen as an adjunct to a process of market and trade liberalization, which is recognized as the appropriate context for promoting regional prosperity. Third, it adheres to the principle that countries should contribute human, technical and financial resources voluntarily to cooperative ventures, from which all partners would derive mutual benefits.

The Asia Pacific Economic Cooperation (APEC) accounts for 55 per cent of total world output and almost half of world trade. It is not so much a region as a hemisphere.

APEC development cooperation requires further definition and refinement. However, it has been the subject of growing interest and study. These studies have generally not construed APEC development cooperation as a North-South transfer of incomes, which would be in keeping with traditional aid concepts. Rather, they but focus more on trade, investment and other facilitation issues based on partnerships.

Micro-regionalism

A third form of regionalism is gaining increasing prominence. It involves activities within contiguous economic and environmental spaces encompassing parts of national territories: hence the term "micro-regionalism". In the case of so-called "growth triangles", these initiatives are largely market-driven. Where there are complex political dimensions, official sponsorship helps to encourage an enabling climate for private interests. And where there are issues of joint resource management, official mechanisms can help to assure that costs and benefits are more equitably shared.

A growing number of examples of these transboundary activities are driven by private market interests, in the absence of formal intergovernmental mechanisms, and often with limited official support. Again, some of the more vibrant examples of growth triangles are to be found in East and Southeast Asia. One example is the zone comprising Singapore, the Malaysian state of Johore and Indonesia's Riau province and island of Batam. Singapore and Malaysian investors responded to the invitation to set up labour-intensive industrial activities on the island of Batam in the late 1980s. There are also privately financed activities in the triangle to develop infrastructure and tourism. Governments have acted as facilitators of these developments, but for the most part the resulting investments have been market-driven. Other examples in the region are provided by the Special Economic Zones of Guangdong and Fujian provinces of southern China, designed to attract private capital from Hong Kong. Mainland China's relations—or lack of them—with Taiwan have also acted as a spur to triangular informal regionalism. Hong Kong has played the role of entrepôt for Taiwanese trade and investment flows to the mainland.

There are also important instances in which market regionalism can be fostered under government auspices, sometimes with the assistance of external sponsorship. In East Asia, where politics has long proved an impediment to closer cooperation, a potentially important growth triangle is being encouraged around the Tumen river, which provides a natural border between China, Russia and North Korea. The Tumen River Area Development Programme also comprises South Korea and Mongolia and—with UNDP assistance—seeks to create an economic space in a relatively backward area with potentially important strategic significance. The programme has encouraged the establishment of a governing council of the five participating countries—the only such development body in which North and South Korea regularly sit down together. The council identifies collaborative initiatives to facilitate cross-border movements of people and resources and to lay the ground for infrastructure development. Under the auspices of the programme, for example, North Korea is creating its first free-export zone. By encouraging cooperation and building confidence in the zone, the programme aims to create the foundations on which private capital will subsequently build.

A different rationale for official sponsorship of micro-regionalism is in the joint management of natural resources. When several countries share the resources of an ecosystem, it is in their interests to collaborate, so as to derive maximum mutual benefit. Major river basins provide some of the best examples, in which the riverine countries have successfully sought to establish cooperative arrangements: the Danube in Europe, the Nile in Africa, and the Mekong in Asia. There are also new regional agreements around inland seas such as the Caspian and the Black Sea, in both of which waterborne pollution emanating from sources in different countries threatens to wipe out the remaining marine life.

These three examples of micro-regionalism are distinguishable by the degree to which governments—meaning national or subnational administrations—are involved. In market-driven growth triangles, governments usually play a minor role, while maintaining a regulatory presence (unless the activity is smuggling!) In more complex political contexts, some intergovernmental mechanisms may be required to create a more favorable climate for market regionalism. In the case of joint resource management, the public presence is required on a more permanent basis to provide mechanisms that arbitrate among the respective interests of consumers and producers in individual countries.

REGIONALISM AS DEVELOPMENT COOPERATION

This brief review of regionalism can help to demonstrate that the new wave of cooperation among clusters of countries and parts of countries could replace, not just the interest in, but also the need for, traditional forms of development cooperation.

Regionalism is an important manifestation of greater economic openness being witnessed on a global scale. Through regionalism, markets are broadened, albeit sometimes within protected boundaries. However, regionalism in the context of a process of global trade liberalization led by the World Trade Organisation is ultimately contributory rather than inimical to freer trade. By bringing more countries into the fold of liberal and outward-looking economics, moreover, regionalism also contributes to continuing reform, especially in countries in a transitional phase away from central planning and management. (Policy-makers are just as likely to heed the example of their neighbors as take advice from experts based in Washington.) Hence the process is helping to change the axis of development from North-and-South to South-and-South. In the case of APEC, NAFTA and other groupings, there is no such axis at all, but rather emerging webs of equitable partnership.

This article has dwelt a lot on trade, which provides the driving force for most regional initiatives. Many, however, incorporate other dimensions of cooperation. In ASEAN, for example, there are more than twelve different sets of regular ministerial meetings on different themes and sectors, and a total of 300 meetings each year. Regional bodies also undertake important security and peace-keeping initiatives. A good example is provided by the Economic Community of West African States (ECOWAS), which has helped to broker peace agreements in both Liberia and Sierra Leone.

Regionalism in all its manifestations can give voice and respect to individual countries, expand trade, promote openness and reform, and encourage exchange of technical experience. All of these goals have been shown by experience to be consistent with development progress. Traditional North-to-South development assistance has similar objectives, but regional development cooperation is based on more equitable partnerships, without conditionality and dependence. ■

SELECTED REGIONAL ORGANIZATIONS AND GROUPINGS

AFRICA

Organization	Member States	Focus Area	Population (mill.)	GDP (1995, US $ bill.)
CEAO Communauté Economique de l'Afrique de l'Ouest	Benin, Burkina Faso, Cote d'Ivoire, Mali, Mauritania, Senegal	Economic Cooperation	59.4	
CEPGL Communauté Economique des Pays des Grands Lacs	Burundi, Rwanda, Zaire	Economic Cooperation	56.5	2.2
COMESA Common Market of Eastern and Southern Africa	Angola, Burundi, Comoros, Congo, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	Common Market	253.9	57.7
ECOWAS Economic Community of West African States	Benin, Burkina Faso, Cote d'Ivoire, Gambia, Ghana, Guinea, Liberia, Mali, Mauritania, Niger, Togo	Economic Cooperation	82.9	29.4
IOC Indian Ocean Commission	Comoros, France, Madagascar, Mauritius, Seychelles	Regional Integration	73.4	1,543.4
MRU Mano River Union	Guinea, Liberia, Sierra Leone	Customs Union	13.5	4.5
PTA Preferential Trade Area for Eastern and Southern Africa	Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	Preferential Trade Agreement (PTA)	242.6	49.8
SACU Southern Africa Customs Union	Botswana, Lesotho, South Africa, Swaziland	Customs Union	45.8	142.4
SADC Southern African Development Community	Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland Tanzania, Zambia, Zimbabwe	Common Market	134.8	170.3
UDEAC Union Douanière et Economique de l'Afrique Centrale	Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon	Customs Union	27.1	17.2
		ARAB STATES		
GCC Gulf Cooperation Council	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	Economic Cooperation	26.5	216.0

SELECTED REGIONAL ORGANIZATIONS AND GROUPINGS, cont.

Organization	Member States	Focus Area	Population (mill.)	GDP (1995, US $ bill.)
ARAB STATES				
OAPEC Organization of Arab Petroleum Exporting Countries	Algeria, Bahrain, Egypt, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, Syrian Arab Republic, Tunisia, United Arab Emirates	Economic Cooperation	158.7	327.5
OPEC Organization of Petroleum-Exporting Countries	Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates (Seat of Secretariat is in Austria)	Economic Cooperation	467.5	553.9
ASIA				
ANZCERTA Australia-New Zealand Closer Economic Relations	Australia, New Zealand	PTA	21.7	405.9
APEC Asia-Pacific Economic Cooperation	Australia, Brunei, Canada, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Thailand, United States	Economic Cooperation	2,130.5	15,200.4
ASEAN Association of of Southeast Asian Nations	Brunei, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	Economic Cooperation	467.0	635.4
ECO Economic Cooperation Organization	Afghanistan, Azerbaijan, Iran, Kazakstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan, Uzbekistan	Economic Cooperation	340.3	280.8
SAARC South Asia Association for Regional Cooperation	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	Economic Cooperation	1,219.5	431.6
EUROPE				
BENELUX Belgium-Netherlands-Luxembourg Economic Union	Belgium, Netherlands, Luxembourg	Economic Cooperation	26.0	681.5
EFTA European Free Trade Association	Iceland, Liechtenstein, Norway, Switzerland	PTA	11.7	453.5
EU European Union	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom	Regional Integration	372.2	8,398.2

SELECTED REGIONAL ORGANIZATIONS AND GROUPINGS, cont.

LATIN AMERICA AND CARIBBEAN

Organization	Member States	Focus Area	Population (mill.)	GDP (1995, US $ bill.)
ANDEAN Group ANDEAN Group (Cartagena Agreement)	Bolivia, Colombia, Ecuador, Venezuela	Regional Integration	77.4	175.2
CARICOM Caribbean Community and Common Market	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts, St. Lucia, St. Vincent, Suriname, Trinidad and Tobago	Common Market	6.4	18.0
LAFTA/LAI Latin American Integration Association	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela	PTA	409.1	1,544.7
MERCOSUR Common Market of the South	Argentina, Brazil, Paraguay, Uruguay	Common Market	201.9	994.7
SELA Latin American Economic System	Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, Venezuela	Economic Cooperation	473.4	1,617.7

NORTH AMERICA

Organization	Member States	Focus Area	Population (mill.)	GDP (1995, US $ bill.)
NAFTA North America Free Trade Agreement	Canada, Mexico, United States	PTA	384.6	7,771.0

Latin American Patterns of Globalization & Regionalization

BY MARÍA ELENA CARDERO GARCÍA

Globalization and regionalization, combined with structural adjustment and privatization, have not helped Latin America's world market position or domestic socio-economic situation. This conclusion is documented by María Elena Cardero García, Professor of International Economics in the National Autonomous University, Mexico. She also calls for rethinking development cooperation among Latin American countries and all developing countries. The aim is to achieve "a presence on the world map" based on their real weight, and to avoid the destabilization that would result from growing poverty and marginalization.

GENERAL TRENDS OF GLOBALIZATION AND REGIONALIZATION

The definition of globalization is still controversial. However, for purposes of this article, let us agree that it implies changes in the way production is organized as required by the general dismantling of trade barriers and the free mobility of financial and productive capital, in the context of accelerated technological change.

Rapid integration of national economies into the global market is another especially conspicuous feature of the process. In particular, technological development in the sphere of information science has been one of the basic vehicles for speeding the process. Information is so ubiquitous that it pervades all sectors of the economy and is an important input for bringing about production, distribution and consumption.

Large transnational enterprises are among the main protagonists of these changes, not only because of their impact on the production process, but also because of their decisive influence on political affairs within States. Because of the magnitude of the resources with which they influence economics and politics, one school of thought holds that power over fundamental economic decisions is shifting from nation-States to stateless corporations.

Some analysts see these enterprises as strongly rooted in the domestic markets of their home countries, where more than half of their added value is generated. But even those analysts see the power of transnationals growing in developing countries, where they sometimes come to dominate the economic, monetary and fiscal policy of the receiving country.

Globalization has not been a neutral process. Its growth has not had an equal effect everywhere that would result in improved living conditions for peoples in all, or at least the great majority, of the countries involved. On the contrary, at the global level the distribution of the fruits of growth among rich and poor countries is more polarized today, with a ratio of 60 to 1, than it was in 1960, when the ratio was 30 to 1. In 1991 more than 85 per cent of the world's population received barely 15 per cent of the world's income.

In many ways, this globalization has been disharmonic, asymmetric and inequitable within individual countries and between countries, obviously with different levels of intensity and with different effects. Among the most evident aspects of this disharmony, rates of economic growth have become dissociated from the creation of new jobs, even in the most industrialized economies. Unemployment has become a social problem which weighs heavily on the public budgets of these countries and prevents them from implementing policies that would correct their governmental deficits. Social inequality has become more prevalent, even in societies which did not have marked disparities in the distribution of the fruits of growth. As a result, pockets of poverty similar to those of the third world have appeared in these countries.

In many ways, globalization has not been a neutral process, but disharmonic, asymmetric and inequitable within individual countries and between countries. The distribution of the fruits of growth among rich and poor countries is more polarized today, with a ratio of 60 to 1, than it was in 1960, when the ratio was 30 to 1.

Added to the foregoing is an increasingly recurring financial instability which was not properly foreseen by international financial agencies. This has become more and more pervasive, dragging a growing number of countries along with it.

By setting off a struggle for world markets, globalization has generated the "be included at any cost" syndrome. In general, this competition takes place in two ways. First, through the permanent reduction of wages to even below the Asian level found in China and India. Second, through collective effort to increase productivity, achieve productive reconversion, invest in human capital, create skilled jobs and raise wages, at least for more highly skilled jobs.

In the short range, regionalization is seen as a seemingly more accessible option for entering the globalization process, but only between a few countries so as not to incur the high costs required by globalized competition. However, regionalization is also not exempt from asymmetries and inequities within the nations that constitute new regions.

> ***By setting off a struggle for world markets, globalization has generated the "be included at any cost" syndrome.***

Nor has regionalization been exempt from asymmetries and inequities in foreign trade. Many regional synergies are based on principles of "inward" strengthening, the avoidance of new flows of trade rather than their creation, and an inequitable and exclusive treatment of non-participants, not only in the economic but also in the political sphere.

GLOBALIZATION AND REGIONALIZATION IN LATIN AMERICA

In little more than 15 years, Latin America has been forced to enter the process of globalization and regionalization. In most countries of the region, there has been an accelerated global and financial opening, most State enterprises have become privatized, important advances have been made in balancing budgets, and the deregulation of the economy has been accelerated. The results of this process in the economic sphere, in the repositioning of Latin America in the world economy, measured by its international competitiveness and in social aspects, have not been encouraging.

MACROECONOMIC PERFORMANCE

At the macroeconomic level, the region has achieved only a meagre performance as a result of the globalizing and regionalizing effort. The debt crisis in the early 1980s initiated a harsh adjustment process. It was marked by a decrease in the flow of financing from abroad, a reduction of the regional rate of investment, and an "overadjustment" designed to deal with payment commitments to other countries. Between 1982 and 1990, the countries of Latin America and the Caribbean made a net transfer of resources to other countries, as a result of interest and accumulated remittances, of $218 billion, equivalent to 3.2 per cent of the region's annual GDP. That fact implied that these countries' performance had clearly been far below its potential productive frontier, with marked underutilization of productive and human resources. The result was an average growth of only 1.2 per cent per year, lower than the increase in population. Therefore, there was a reduction in the per capita GDP and domestic demand was virtually stagnant, until 1990.

As a result of an improvement in the

most important variables of the international context, between 1991 and 1994 the region received a capital influx of $207 billion. This yielded a net transfer of $79 billion, averaging 1.5 per cent of the GDP from 1991 to 1994, and made it possible to finance the growing commercial and current-account deficits. In addition, the foreign interest rate went down, debt service decreased, and exchange rates stabilized somewhat. These combined factors enabled the Latin American subcontinent to achieve moderate rates of growth in productivity (3 per cent per year between 1990 and 1996). An increase on the order of 4.5 per cent is being estimated for 1997. That is to say, levels lower than the region's historic performance (5.5 per cent per year between 1945 and 1980) and lower than what the Economic Commission for Latin America and the Caribbean (ECLAC) considers necessary for overcoming the existing technological and social lags (6 per cent per year).

This new input of resources was translated into growth not in productive investment and production, but predominantly in consumption. It accentuated countries' vulnerability to changes abroad, compelling them to neutralize the entry of foreign currency by raising interest rates. This made productive investments more expensive, revalued currencies and limited autonomy in monetary policy. It reduced the competitiveness of exports and of local substitutes for imported products. Economic restructuring became more difficult to achieve.

INSERTION INTO THE INTERNATIONAL SYSTEM

Today for Latin America, globalization means a change from the pattern of earlier years, which was skewed toward substitution of domestic products for imports. Instead, the new pattern is to promote growth in the external sector as the engine that provides the motive force for growth.

The Latin American group of countries made an effort to increase exports and achieve an opening to the outside world. The result is that the region's exports grew faster than world exports overall. However, this was not reflected in a substantive improvement in the countries' economies or social welfare. In the external sector, regional exports between 1990 and 1994 increased at an annual rate of 7 per cent, but the regional product only increased by 3.4 per cent. Much of this export dynamic is now functioning as a new export "enclave" which is growing stronger, thanks to an intensive input of semi-finished products and capital goods being assembled for reexport. This explains why the growth in imports is considerably greater than the growth in exports and why the growing deficits in the balance of trade must be covered by inputs from direct foreign investment, in portfolio, or by indebtedness.

As a result of this reorientation towards the outside world, largely based on the intensive exploitation of natural resources, the percentage of the GDP represented by exports has increased from 14 per cent in 1980, to 21 per cent in 1990, and 25 per cent in 1995 (ECLAC 1996). However, the percentage of foreign sales represented by basic commodities—food, non-food agricultural products, metals and mineral fuels—continues to exceed the figure for the developed countries, while their value is constantly eroded by the variability of prices and the deterioration of the terms of trade.

Though Latin America's international competitiveness has improved, as measured by its insertion into the most dynamic markets of the OECD countries, it is still very low in comparison with the level reached by other countries. For the nations belonging to the Asociacion Latinoamericana De Integracion (ALADI)[1], the proportion of manufactured products among exports to OECD countries increased from 23 per cent in 1980 to 48 per cent in 1993. However, this performance is poor in comparison with the penetration achieved by Korea, Hong Kong, Singapore and Taiwan. These East Asian countries have targeted their exports in the most dynamic import categories of OECD, increasing their sales of manufactured goods to the outside world from 84.7 per cent of their total exports in 1980 to 92 per cent in 1993.[2]

To face the challenges of these years of accelerated globalization, groups of Latin American countries made political decisions to form regions which would give them greater negotiating strength in the international competition for markets and capital. This led to the establishment of several regional markets (Mercosur, the Andean Pact, the Central American Common Market) and bilateral trade liberalization agreements. In practice, these arrangements are ultimately competing with one another in the search for better positioning in international competition. In many cases, they involve a struggle for market niches where transnational corporations have already planted their flags.

RESOURCES FOR DEVELOPMENT

Internal savings have become a growing cause for concern. The low level of savings in the region has resulted, in large measure, from the enormous effort being made to send surpluses abroad in order to cover debt service and make repayments of capital. This generates a high degree of dependence on external investment, which makes the financial variables extremely fragile.

Advances in macroeconomic stabilization do not seem to have created a satisfactory environment for internal savings. The high rates of interest prevailing within many countries make foreign portfolio investment attractive when they are used as instruments to cover the "rate-of-exchange risk" and to stabilize the growth of prices, but they discourage national investment.

In practice, there has been a tendency for internal savings to decrease, while the flow of external investment increases. This input of capital generates a "wealth" effect which is manifested in a consumption bubble beyond the true capacity of the economy and which immediately increases the balance-of-trade deficit. Furthermore, the growth in public savings seems to compete with private savings, since if the former increases, the latter has diminished.

Savings are probably related to the level of per capita income, its rate of growth and its distribution. But what is evident is that even temporary increases in income have a more positive effect on increases in consumption than on increases in savings. This probably arises because consumption has been repressed as a result of the drop in per capita income levels. The increasing vulnerability and unreliability of Latin American countries' financial systems also seems to discourage internal savings.

Measures intended to limit the input of speculative capital, as in the cases of Chile and Colombia, appear to have had a positive and less destabilizing effect on national economies than where these have not been applied. The combination of low or zero certainty about exchange rates, the sterilizing effect that retards the convergence of interest rates, and financial liberalization has resulted in measures which have little effect in achieving greater stabilization.

WHO HAS BENEFITED FROM GROWTH?

Income distribution during the stage of "inward" growth, especially the late 1970s, was characterized by concentration of resources due to the dynamic economic performance of those years. The absolute number of poverty households was reduced, even though marginalization and impoverishment were intensified on the fringes of poverty.

In the stage of structural adjustment and opening, the fragile balance of employment that had been successfully maintained during the preceding stages was upset. Real wages decreased, open unemployment expanded and the proportion of jobs in segments of lower average productivity increased. All of this was combined with the effects of inflation and the increase in capital gains derived from financial speculation or deregulation in many countries. With the exception of Colombia and Uruguay, this stage brought a far-reaching regressive redistribution of income in the region's countries, which was impossible to counteract during the growth cycle initiated in the 1990s.

The transformations undertaken during the 1980s made provision for inevitably high social costs. The hope was that the reforms achieved would spur a new form of growth, with increases in productivity, and that this would energize the economy as a whole and possibly bring greater employment. Up to now, growth has experienced some dynamism, but not in the permanent, productive and well-paid jobs sought by a growing population.

In 1990, 39 per cent of the region's households were below the poverty threshold, as compared with 35 per cent in 1980. The exacerbation of poverty was more marked in the urban areas, where it increased from 25 per cent to 34 per cent of households. Growth in recent years has not brought any improvement in levels or quality of employment. According to the International Labour Organisation, 84 out of 100 new jobs created in the first half of the 1990s were in the informal sector, to which 56 per cent of employed persons in the region belong. Between 1995 and 1997, when most countries of the region achieved an annual average growth of 3 per cent to 4 per cent, open unemployment increased, while employment in activities with a low output per person also increased. This gives reason to suppose that poverty and income distribution remained unchanged and even grew worse. Only Chile, starting with sustained and high growth, has been able to reduce poverty significantly, though the intensified concentration of income continues.

In Brazil and Mexico, a large proportion of new jobs does not seem to require high levels of experience or technical training. Wages for these new jobs are lower than those earned by people who lost their jobs, and more than half of the new jobs are designed for young people and women.

Thus, the adjustment in the region's labour market came about more through increases in underemployment and employment in low-productivity occupations than through open unemployment. At least the largest Latin American countries—Argentina, Brazil and Mexico—are developing a new employment structure, highly heterogeneous with regard to types of work and wages, low in productivity, with a precarious income and, in the case of Brazil and Mexico, an increase in female participation.

The industrial sector's share of employment, which had been between 15 and 20 per cent, has been going down. Employment has increased in the commercial and service jobs generally held by more than half of the economically active population. These trends reflect the reduction in industrialization and the growing introduction of women into the labour market. In some countries, despite the enormous drop in the contribution of agriculture to the national product, employment in the agricultural sector is still significant, representing up to one quarter of the total.

In this context, wages are determined strictly by efficiency and profitability, and, in the absence of real increases in productivity and competitiveness, all principles of equity are abandoned.

CHANGES IN THE POLITICAL SPHERE

The accelerated changes that have taken place in less than 15 years have not been an easy or welcome process for the region. These changes have arisen not so much from internal circumstances as from multiple changes in the international context; the cause has been not so much an initiative taken by governments as an initiative taken by world organizations and large transnational enterprises.

The appearance of new international participants calls into question the dominance of sovereign States over the international relations of their countries. They have been particularly exposed to the power of transnational enterprises, whose combined assets represent one third of the world's production. Developing countries that try to attract this foreign investment do not want to discourage it; this inhibits the possibilities of levying taxes that might place limits on them, sharing in the costs of growth, demanding adequate wages or seeking appropriate regulations for the benefit of workers.

Changes have been rapid, leaving institutional vacuums. Under the previous pattern of development, there were alliances between the State, entrepreneurs and workers, which have now been surpassed. A large number of structures, institutions and social agreements have gone into disuse or disappeared. The old partners have not created transitional or new ones, and the construction of alliances is still inconclusive or ambiguous. Institutional development has lagged, imprinting marks of weakness on the democracies of these countries.

In addition, as a result of the new type of relationships, the State is losing its ability to act as the fundamental arbiter of social conflict. It has regressed to the roles it played in the last century and has assumed that "the invisible hand" of the market will, by itself alone, solve the problems of poverty and inequality. In any case, it has concerned itself solely with local issues of extreme poverty. Many of the political parties created long ago as vehicles of citizen participation have abandoned some of their democratizing and participatory goals. They have become mere instruments for attaining power, often paralysing democratic progress in exchange for temporary or regional political positions. This has brought no substantive advances for the region's fragile democracies.

SOUTH-SOUTH COOPERATION

The challenge to the region in the new international context of globalization is to achieve development which is competitive, efficient, equitable and pervasive. This undoubtedly involves a great many efforts, including slowing the pace of globalization to permit incorporation of the social groups that have lagged farthest behind. Attention to economic and social balance, to social cohesion, remains a priority objective. The sectors which have lagged furthest behind are the ones which always mark the pattern of general development.

Pursuing an active social policy for this purpose is surely indispensable. Without such a policy, the changes which lead to a better income distribution or to growth will not take place, even in the most dynamic countries. The fight against poverty is not the exclusive responsibility of the social policies of the State; this struggle is multifaceted and requires action by all those engaged in social and economic activities. Economic growth and increased employment are not enough; measures relating to other areas, such as education, taxation and community participation, must be included. The dysfunctionality of globalization must be corrected by incorporating the lagging sectors. This calls for ad hoc policies to provide palliatives for poverty, but also for mechanisms to prevent the exclusion of those sectors and promote their effective contribution to growth.

What is needed, therefore, is a different focus in the relationship between the State and society. It should emphasise decentralization, innovative forms of citizen participation, the creation of a social authority that works on terms of equality with the economic authority (ECLAC 1997), and greater coordination between the various sectoral agencies and programmes.

In the sphere of state intervention, it is necessary to improve the quality of the actions taken by the State, strengthen the system for administering justice, improve the allocation of social expenditures and devise policies which will put a brake on monetary violence, destabilization and the financial fragility of the economy.

Until now, it has been thought that cooperation should flow from North to South. Put another way, the countries of the South have sought out the North in order to become integrated into this globalization. There has been rhetoric about South-South cooperation, but in practice its development has been modest; when it has occurred, it has been fairly restricted.

This weakness once again draws attention to the need to think about new South-South cooperation. It should aim at solving specific problems of poverty, unemployment, marginalization, sustainable development, recovery of natural resources, and transfer of specialized knowledge and experience. This proposal is in fact nothing new, but it is undoubtedly more urgent and more viable today than before. The bipolar world which we knew has ended, and there is a tendency towards exclusion of the South from the emerging new geopolitical configuration.

In the new international environment, conflicts seem to occur more within States than between States. Power was traditionally exercised by military and economic sources; now, other sources are added, such as the creation,

There has been rhetoric about South-South cooperation, but in practice its development has been modest; when it has occurred, it has been fairly restricted.

transmission and exchange of information and knowledge. This introduces a new concept of the rule of "soft power".[3]

New actors on the international scene, such as nongovernmental organizations, are pressuring governments to maintain respect for human rights, preserve certain animal species or natural resources, and defend interests relating to human security. Sometimes their pressure is made possible by the support they receive from the very governments they are pressuring, as well as from private groups.

The South must seek a presence on the world map based on its own weight, the size of its population, and the destabilization that would result from continuing and aggravating the present situation of growing poverty and marginalization.

In the short term, official development assistance seems to be virtually nonexistent. When it does exist, it remains more closely linked to the needs of the donor countries' markets than to those of the recipients. Foreign investment has been concentrated among the developed countries, in a sort of circle of relocation of capital and trade between them, and increasingly excludes the countries that are lagging behind.

In this context, the South must seek a presence on the world map based on its own weight, the size of its population, and the destabilization that would result from continuing and aggravating the present situation of growing poverty and marginalization. This search should not be made on the basis of the North's needs, nor by abandoning the South's own needs.

In multilateral forums such as the United Nations and the World Trade Organization, the South should be better organized. In order to gain real and appropriate attention for the problems of poverty, it should make its demands more articulate and coherent and its presence more effective.

Intra-South cooperation can and should shift its focus. It is time to rethink the kinds of social and political commitments that were involved in the traditional cooperation movements of the 1950s through 1970s. New models of cooperation are needed to strengthen bonds within and between the regions of the South. They should be based on identifying problems which are characteristic and common in the South, exchanging knowledge about ways of dealing with them, and creating and disseminating new knowledge aimed at providing solutions.

This new dynamic of cooperation should actively incorporate private participants, agricultural producers, miners, private companies, consumers, universities and research centres. Their needs and priorities should be the basis for deciding how to cooperate, and in what

Intra-South cooperation can and should shift its focus. It is time to rethink the kinds of social and political commitments that were involved in the traditional cooperation movements of the 1950s through 1970s.

activities. Promoting new models of cooperation is one of the most important aspects of this new form of intra-South cooperation. It implies decentralizing decisions on the basis of the needs of communities and participants. And it implies that governments will facilitate cooperation and keep it flexible, and redistribute resources in order to improve the standard of living of the majority of the population. ■

Notes

[1] Not including the countries of Central America and the Caribbean.

[2] In the case of Mexico, the proportion of manufactured goods not based on natural resources increased from 25% to 68%, even though petroleum continues to account for 15% of Mexican exports to OECD. An important factor in Mexico's case is the share currently contributed to this high percentage by *maquilladora* production.

[3] This concept of "soft power" is the art of disseminating information in such a way as to attain the desired results through dissuasion, not coercion. In this sense, power is exercised through the use of networks of alliances.

African Trade Prospects in a Globalizing Era

BY T. ADEMOLA OYEJIDE

Africa is the only developing region whose exports and world trade shares have declined since the 1980s. Dr. T. Ademola Oyejide describes ways of reconciling the policy autonomy needed to rescue African trade from this "spectre of marginalization" with the policy imperatives of globalization. He is Director of the Trade Policy Research and Training Programme, University of Ibadan, Nigeria; Managing Editor of African Journal of Economic Policy; and coordinator of several African economic research projects.

INTRODUCTION

As the growth of African economies began to falter, particularly in the 1970s, international development agencies became increasingly active in regulating various aspects of the economic policy of these countries through policy advice and the provision of funding support. Correspondingly, most African countries progressively lost full control over their own economic policy decisions. The current globalization trend and the associated movement towards global harmonization of key elements of economic policy may, it is feared, further encroach upon the domestic policy autonomy of African countries. The threat of globally harmonized policy postures is particularly significant for Africa in trade policy, given the region's special disabilities, poor initial conditions and lack of international competitiveness in virtually all facets of modern production activities.

This article examines globalization and its implications for African trade policy and reviews the trend and patterns of African exports in the context of the region's perceived marginalization in world trade. It also briefly articulates a new export development strategy and policy package for Africa and proposes shielding the region temporarily from the full force of worldwide policy harmonization implicit in the trend towards globalization.

GLOBALIZATION AND ITS TRADE POLICY IMPLICATIONS

Globalization refers to the increased integration, across countries, of markets for goods, services and capital. This, in turn, implies accelerated expansion of economic activities globally and sharp increases in the movement of tangible and intangible goods across national and regional boundaries. With that movement, individual countries are becoming more closely integrated into the global economy. Their trade linkages and investment flows grow more complex, and cross-border financial movements are more volatile. Deepening integration of trade, markets and finance all mean increasing interdependence.

The current wave of globalization, apparently begun in the late 1970s, has not been an autonomous phenomenon. It has been stimulated and facilitated by widespread and sustained changes in government policy. These have been accompanied by widely diffused technological progress, particularly in transportation and communications. More specifically, globalization has been created, and continues to be maintained, by liberalization of economic policies in several key areas. Many governments have undertaken various deregulation, privatization and liberalization activities. These have included the lowering of cross-border impediments to the flow of financial services, trade, transportation and communication. These policy changes have central importance in sustaining the trend toward globalization, and globalization, in turn, also has substantial influence on policies. Clearly, deep integration requires a certain degree of policy harmonization across countries. Thus, globalization would appear to place considerable premium on sound policies that are also globally harmonized.

The increasing integration of developing countries into the global economy, though not free of significant challenges and problems, brings certain opportunities for them to achieve higher economic growth rates. Greater competition in wider markets can stimulate them in a number of ways. It exposes developing country exporters of manufactured goods to new technologies, designs and products, as well as better management techniques. It enhances access to imports that embody new technologies and encourages transfer of technology. It also helps gain improved access to foreign resources generally. Pursuing these opportunities can, in turn, lead to more efficient resource allocation, generate productivity gains, and contribute to higher growth rates. Such considerations underpin the observation that open economies tend to grow faster than closed ones, and that countries achieving more rapid and higher level integration into the global economy tend to experience faster growth in output.

Since the 1970s, developing countries have integrated themselves into the global economy in varying degrees, as demonstrated by such "integration indicators" as ratios of trade and foreign direct investment to the gross domestic product (GDP). By those two measures, Africa stands out as the region with the lowest levels of integration. It also has had lower credit ratings and lower shares of manufactured products in total exports than other groups of developing countries from the late 1970s to the mid-1990s. The region has made considerable progress over this period in reducing trade barriers, exchange rate overvaluation, and taxation of exports. However, these steps have apparently not been translated into significantly enhanced levels of integration or higher and more robust rates of economic growth.

Africa stands out as the region with the lowest levels of integration into the global economy.

A familiar response to this puzzle is that, despite its recent and wide-ranging policy reforms, Africa has not done enough; the region retains high and dispersed trade barriers which inhibit its fuller integration into the global economy. Hence, it is suggested that African countries should open up to world trade in order to stimulate their economic growth; and the way to do this is to liberalize their international trade and payments regimes even further. From this perspective, the trade policies of African countries, not those of their trading partners, need to be changed to promote growth. In other words, African countries must fully liberalize and harmonize their trade policies to the global "standard" as a condition for increasing their integration into the global economy and eventually reaping the associated benefits of faster growth rates.

THE SPECTRE OF MARGINALIZATION: AFRICAN EXPORTS

Both the value and volume of world merchandise trade expanded rapidly during the 1980s and the 1990s, and many developing countries shared in this trade buoyancy. But the Africa region failed to participate in this virtually global trade expansion.

Thus, while world merchandise trade expanded at an average annual growth rate of just over 6 per cent during this period, African exports suffered an average annual decline of 1 per cent, compared to more robust growth rates of 7 per cent and 5 per cent for Asia and Latin America, respectively. Africa's poor export growth record is reflected in the steady decline of the region's share of world merchandise trade which fell, approximately two-thirds, from about 6 per cent in the early 1980s, to roughly 2 per cent in the mid-1990s. In comparison, Latin America maintained its share of about 5 per cent throughout, while Asia sharply increased its share from 16% to 27%. These comparisons broadly confirm the suggestion that Africa has been marginalized in terms of contribution to world trade (see table).

Does Africa's poor export performance trend provide a sufficient explanation for the region's equally dismal economic growth record over this period? If so, Africa's clear marginalization in world trade would be of obvious concern. However, a different view is that the explanation lies in Africa's relatively slow GDP growth more than anything else. In this view, first, Africa trades as much as can be expected, given its level of per capita income and its location in relation to the rest of the world; and second, Africa's trade-to-GDP ratio did not fall as dramatically as the region's share in world trade during the 1980s and 1990s. Hence, Africa's marginalization in world trade reflects the fact that the region's GDP growth was much lower than other developing regions. In other words, poor economic growth performance inhibited African export growth rather than vice versa, and real economic growth then influences trade shares. Since improved economic growth constitutes the base for enhanced participation in world trade, the solution to Africa's marginalization in world trade must be found in those factors and policies that boost overall growth.

There is clearly some truth in both views discussed above, and a comprehensive attempt to understand Africa's marginalization in world trade must take account of both. Even if Africa's GDP growth had matched the average rate for other developing regions, its share of world trade could have declined for a number of reasons:

First, African exports consist of a much higher share of primary commodities (over 60 per cent) than the average for the world (less than 25 per cent) and for Asia and Latin America. The primary commodities on which so many African countries so heavily depend have experienced sluggish world demand and a long-term decline in real prices. Africa's market share for many of the key primary commodity exports experienced significant erosion between the early 1970s and the mid-1990s. Market share losses were 40 per cent for such commodities as copper, timber, and coffee; almost 60 per cent for iron ore, and close to 30 per cent for cotton and cocoa. All

TRADE COMPARISONS BY REGION

Period	Africa	Asia	Latin America	World
1. Average annual rates of export growth (per cent):				
1980s-90s	- 1	+ 7	+ 5	+ 6
2. Share of world merchandise trade (per cent):				
Early 1980s	6	16	5	
Mid-1990s	2	27	5	

of this is reflected in the region's declining share of world trade.

Second, Africa's declining share of world exports also reflects its failure to develop and expand alternative export products, such as manufactures. An increasing share of manufactured goods in a country's export basket can be an important indicator of its exposure to international technology, its access to learning and gains from technology transfer, and its ability to produce at internationally competitive standards. Compared to the other developing regions of the world, Africa has the lowest share (around 10 per cent) of manufactures in exports and the lowest growth rate of that share over the last two decades.

Africa's dramatic loss of market shares for its primary export commodities and its failure to diversify, develop and expand other alternative export products are usually blamed on poor domestic policies. This perspective suggests, for instance, that competition from new and relatively more efficient producers in Asia and Latin America displaced African primary commodity exports in the world market. Unlike African countries, their Asian and Latin American competitors sustained and enhanced their comparative advantage by investing in research, extension, infrastructure and extensive planting of new and improved varieties, thereby reducing costs. But the typical African country overtaxed its primary commodity sector—directly through explicit export charges, and indirectly through overvalued exchange rates and inefficient parastatal marketing monopolies. At the same time, African agricultural and export sectors received inadequate government support to overcome the negative incentives from policies governing trade and exchange rates.

Remedies to reverse the trend of marginalization of Africa in world trade must include policies to revitalize growth, diversify and promote exports, as well as improve market access abroad for African exports.

Similarly, inappropriate domestic policies are blamed, together with lack of human and technological capacity, for Africa's failure to develop, expand and export manufactured products. With the exception of only a few countries (e.g. Mauritius), the predominant industrialization strategy in much of Africa during the 1960s and 1970s emphasized import-substitution manufacturing activities oriented largely to limited domestic markets. It is argued that the lack of a strong and sustained outward-orientation and export focus generated in Africa a relatively inefficient manufacturing sector, dominated by low technology activities and inherently unable to compete internationally.

The point of view which emphasizes poor or inappropriate domestic policies as the root cause of Africa's marginalization in world trade suggests a fairly straightforward solution: policy reform. However, there are good reasons to suggest that Africa's poor economic growth (and hence export growth) may not be explained solely in terms of bad policies. The socio-political environment is probably just as much to blame, and thus performance could remain poor even after reforming key economic policies. Recent research finds that just over half the African population lives in conditions that are simply unsafe or subject to severe macroeconomic instability, or both. It is more reasonable to expect growth when governments provide a consistent minimum level of social order, macroeconomic stability, and adequate resource allocation. Less than 15 per cent of Africa's population lives in countries that satisfy this minimum adequate environment for supporting and sustaining modest rates of economic growth. But even for this group, survey evidence suggests that risk remains a major deterrent to growth.

In the light of these considerations, it seems clear that appropriate remedies for reversing the trend of marginalization of Africa in world trade must include policies to revitalize growth, diversify and promote exports, as well as improve market access abroad for African exports.

ADJUSTING TO GLOBALIZATION AND DEMARGINALIZING AFRICAN TRADE

African countries can neither stand aside from nor ignore the current globalization process. They have to adjust to the process and become more fully integrated into the world economy. But they should do so in ways that permit them to revitalize their economies, as well as stop and reverse their marginalization in world trade.

Two efforts can help achieve the latter objective. One is to establish and strengthen Africa's capacity to compete internationally.The other is to seek special market access abroad for the region's exports before this capacity is fully established. Both elements may require policy initiatives that are unlikely to be fully consistent with the global policy harmonization which globalization promotes. What is required is a special framework for reconciling the policy imperatives of globalization with the policy autonomy needed to rescue African trade from the spectre of marginalization.

A viable export development strategy for Africa should exploit the region's comparative advantage. More specifically, it should be rooted, to begin with, in the region's current strong comparative advantage in primary production. But it should also be sufficiently flexible to take into account comparative advantages that may subsequently emerge in labour-intensive industry. Thus, there are at least two major elements to the strategy. The first is to rebuild the primary commodity sector and its exports as a means of regaining and possibly expanding Africa's world market shares, as well as creating an efficient and productive agricultural base as a foundation for future industrial and economic growth. The second is to establish a dynamic and diversified export sector by promoting the processing of primary commodities for export and encouraging the growth of labour-intensive manufactured exports.

The experience of several Asian countries demonstrates that the main investments required for maintaining competitiveness in export agriculture are in research, infrastructure, marketing and planting programmes. Africa needs to make concerted efforts in the same direction.The potential, inherent in Africa's smallholder agriculture, for future expansion in output and export is unlikely to be fully realized until the region develops a dynamic and competitive agriculture which draws its strength from science-based productivity growth. Efficiency-boosting and cost-reducing measures are thus at the heart of any future strategy to develop primary commodity exports in Africa, since the only effective response to world competition is increasing productivity.

Establishing a dynamic and diversified export sector in Africa necessarily goes beyond rebuilding and expanding primary commodity exports. It requires also the processing of primary commodities for export and the growth of labour-intensive manufactured exports. Accumulated experience from other developing regions suggests that this requires the establishment and scrupulous maintenance of macroeconomic stability and the insulation of the export sector from the disincentives of protection and rent-seeking.

This strategy recognizes several key features of the existing realities in Africa. First, the region's stock of efficient modern manufacturing facilities is extremely small and fragile, and could easily be destroyed by an abrupt and premature exposure to international competition. Second, Africa's emerging comparative advantage in primary commodity processing and labour-intensive manufacturing may not evolve rapidly enough under strictly market-based incentives. Third, Africa's current level of industrial experience suggests that much industrial learning and capacity-building need to be done. Finally, the costly nature of the required capacity-building and industrial learning imply that the processes involved would need to be protected.

These features of the existing realities in Africa imply that its export development strategy should not require African countries to move immediately and fully to a virtually free-trade policy posture. However, Africa's past experience with industrialization policies also cautions that protection of industrial learning and capacity-building should be narrowly targeted, moderate, temporary and performance-based. The purpose should be to minimize undesirable distortions and costs while encouraging rapid learning and productivity gains. The strategy tolerates a degree of protection, but appropriate export-promotion incentives, such as duty drawback and exemption schemes, can have adverse effects on exporters unless a free trade environment is created to shield them.

The export development strategy briefly articulated above is made up of several key parts whose proper sequencing and time-phasing can be crucial to successful implementation. The starting point is to establish the policy and institutional prerequisites for rapid and sustainable export growth and overall economic growth. These include political and macroeconomic stability, sustainable fiscal policies, realistic and flexible exchange rates, stable financial system, efficient infrastructures, and private sector development, with a hospitable climate capable of attracting foreign investment and technology. These have been important elements of Africa's structural adjustment and policy reforms since the mid-1980s. Considerable success has been achieved, although many countries are still some distance away from the frontiers of "best practice" in several areas. It may be reasonable, however, to expect many African countries to satisfy these preconditions within the next three to five years.

A viable export development strategy for Africa should exploit the region's comparative advantage in primary production, but also take into account comparative advantages that may subsequently emerge in labour-intensive industry.

The next stage of this strategy is to design and implement policies aimed at reinvigorating Africa's primary commodity sector through initiatives that enhance productivity and reduce costs. This stage involves rebuilding and strengthening the region's agricultural research and extension services, rehabilitating and improving rural infrastructure, developing appropriate technologies for higher-yielding varieties, and engaging in aggressive replanting programmes. Hence, it is unlikely to be successfully implemented in many African countries in less than 10 to 15 years.

The final stage of the strategy should overlap with the second. It involves the design and implementation of a policy reform and capacity-building programme aimed at moving each African economy gradually but systematically away from its current posture of control and inward-orientation. It should move toward a more deregulated and outward-oriented environment, in which the remaining protection is moderate, targeted and time-bound, while exporters are appropriately insulated. Given the amount of industrial learning and capacity-building needed, this stage may require a time span of 20 to 25 years in many African countries.

An export-development strategy must also pay attention to whether secure market access can be attained abroad. One might think that, on this count, African countries should have no problems. After all, Africa receives trade preferences under various generalized system of preference (GSP) schemes and the Lomé Convention. But over the last 25 years these preferences have neither helped African countries expand and diversify their exports, nor been sufficient to maintain their shares of world trade. While trade preferences have not been entirely without value to African recipients, they suffer from severe limitations which significantly diminish their intrinsic worth; and they provide a doubtful basis for African countries to build more permanent comparative advantage. Key limitations include their biased and restricted product coverage, limited duration, built-in quotas, and restrictive rules of origin. The Lome Convention, for instance, is much more restrictive for manufactures (which are subject to quota limits) than for primary commodity exports. Quantitative limits, exclusions and tight rules of origin are also built into some trade preferences. These limitations tend to shift resource allocation in African countries away from, rather than towards, manufacturing activities that are critical in early stages of industrialization, such as clothing, leather, agricultural and mineral products processing.

The recently completed Uruguay Round (UR) of multilateral trade negotiations has had the effect of eroding much of the existing trade preference for Africa. The UR agreements have also had the effect of limiting the policy autonomy of African countries in such areas as the use of subsidies to promote exports, and temporary trade restrictions to protect infant industries and combat balance-of-payments problems. In addition, the agreements for intellectual property protection and trade-related investment measures could limit African countries' range of action in support of the export development strategy described above.

It seems likely that the rapidly unfolding process of globalization will continue in the direction of widening the mandate of the World Trade Organization (WTO) over an increasing range of trade and trade-related policy issues. Current trends suggest that developed countries will pursue deeper integration among themselves over this range of policy issues. In this circumstance, it becomes important that time-phased "concessions" be provided for the low-income developing (including African) countries. Such transition periods take into account the speed with which low-income developing countries can alter their trade and payments regimes and build the necessary institutional framework. In other words, time-bound phasing should relate to differences in initial conditions, accommodate differences in the capacity for adjustment, and give a breathing space before full WTO obligations take effect.

The case for time-phasing also applies to the question of whether trade preferences for African countries should be abolished, given the many limitations of the existing preferential schemes. Are these countries likely to be better served by a world trading system that is based on full reciprocity in making concessions and complete symmetry in the rights and obligations of all participants? The arguments against this idea can be stated very briefly as follows. African countries do not have the negotiating leverage necessary for active participation in the WTO process. Preferential trade arrangements are probably the only effective mechanism for them to maintain some access to developed world markets. Their initial conditions are widely diverse and their levels of development are markedly different; this implies that their adjustment is likely to be asymmetrical, since their ability to adopt trade-liberalizing measures varies considerably.

The UR agreements do not include a multilaterally negotiated and comprehensive framework from which to derive both the special market-access rights and time-phased derogation from appropriate WTO disciplines for African countries that would meet the needs specified above. To be effective, such a framework would have to be contractually binding on all parties to the WTO and cover all trade and trade-related issues. It would have to adopt common criteria for agreeing to special market access and derogation from relevant rules, time limits for their duration, and criteria and international review procedures governing countries' graduation from both provisions. To eliminate the deficiencies of the existing GSPs and similar trade preferences, it would be necessary to grant contractual zero tariff treatment to all exports of beneficiary countries. In the case of derogation from WTO rules, a multilaterally negotiated list of WTO disciplines should be the basis for granting an agreed time-phased transition to these countries for up to 25 years, subject to periodic review at 10-year intervals; approval should be based on the same criteria used for the trade preference scheme.

To ensure that beneficiaries do not become permanent "free-riders", they should be subject to some conditions. First, they should agree to bind their tariffs at multilaterally agreed levels, perhaps not above 50 per cent. Second, they should agree to a negotiated schedule of tariff reductions over the transition period that bring bound tariffs to reasonable levels such as 10 to 15 per cent.

CONCLUDING REMARKS

It can be argued, with some justification, that Africa's poor export and overall economic growth performance predated and is therefore not directly ascribable to the current wave of globalization. However, there may be legitimate concerns on at least two counts. First, the process of globalization may contribute to a worsening of the current trend towards the marginalization of Africa in world trade. Second, the move towards global policy harmonization, which is closely associated with the globalization process, may preclude precisely those policy initiatives that are required to stop and eventually reverse Africa's marginalization trend.

The move towards global policy harmonization may preclude precisely those policy initiatives that are required to stop and eventually reverse Africa's marginalization trend.

Globalization is likely to generate substantial gains in productivity and associated welfare. However, it tends to diminish national economic policy sovereignty in relation to international market forces. This may well worsen inequality both between and within countries, and exclude poorer countries and weaker segments of society from sharing in the benefits and welfare gains. Yet it will not provide a viable and robust mechanism for dealing with these effects.

In the particular case of African trade prospects, it seems clear that there is a need to reverse the marginalization trend without opting out of the globalization process. This may require establishing a protective "shield" against certain elements of globalization over a transition period. There is an urgent need for the international community seriously to address this issue. An appropriate framework should be devised to help African countries adjust to globalization in ways that are compatible with policies to hasten the recovery and sustained growth of their economies. ■

Bibliographical note

This paper draws from two earlier papers (and references cited therein) by T. Ademola Oyejide: "Access of African Exports to the EU Market: Lome and Beyond" (1997); "Low-Income Developing Countries in the GATT/WTO Framework: The First Fifty Years and Beyond"(1998). Copies of both papers are available from the author upon request.

A TALE OF TWO CONTINENTS:

Africa, Asia & the dialectic of Globalization

BY ALI A. MAZRUI*

After five centuries of interaction among countries all around the rim of the Indian Ocean, how do they compare in levels of development and westernization? What is the balance sheet of their cooperation, competition and conflict? Ali A. Mazrui, Director of the Institute of Global Studies at the State University of New York, provides an historical and analytical survey.

DID GLOBALIZATION BEGIN with Vasco da Gama? In 1498 this Portuguese navigator connected Europe to Asia via the African coastline. A tricontinental world of Europe, Africa and Asia entered a new phase of interaction, for better or for worse.

Almost exactly five centuries have gone by since Vasco da Gama. Although the word "globalization" is new, the process itself goes back at least that long. For Africa and Asia, the main arena of contacts in that time has been the Indian Ocean, involving countries in South Asia, West Asia and the eastern seaboard of the African continent. Let us examine this arena in terms of five dimensions: interactive, comparative, competitive, cooperative and conflictual.

THE INTERACTIVE DIMENSION

Geography is frequently the mother of history. One of Africa's geographical impacts on world history was in preventing for so long European access to the Indian Ocean. European traders and merchants interested in the "fabulous and legendary Orient of silk, spices and pearls" wanted a sea route to the Orient. They wanted access to the Indian Ocean, but the African land mass was in the way, a huge stumbling block to

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European greed.

At long last, in 1488 Bartolomeu Dias reached the South African Cape, but could not easily round what he called "The Cape of Storms". The Indian Ocean was so near and yet so far. It was not until Vasco da Gama in 1498 that Europeans fully circumnavigated South Africa, and gained access to the Indian Ocean. They had by then renamed the cape as "the Cape of Good Hope"; the presumed riches of the Orient appeared reachable across the Indian Ocean at long last. Globalization had begun.

The role of Africa as the closed gate to the Indian Ocean for Europeans also had consequences for the Western hemisphere. Had Africa been a smaller continent which could easily be circumnavigated by Europeans, there would have been no need to seek a Western route to the Orient for a long time. Even as it was, Christopher Columbus had a lot of trouble raising the money for his first trans-Atlantic trip in 1492. He would not have been funded at all if Europeans had gained access to the Indian Ocean much earlier. The European "discovery" of the Americas would have been delayed for at least another century.

European interest in access to the Indian Ocean had long-term consequences for Africa as well. The Portuguese colonization of Mozambique was partly motivated by oriental aspirations. They built trading posts, such as Fort Jesus, which still stands today in Mombasa, Kenya, to facilitate and defend their routes to the Indian Ocean and the Orient. It was my own family (the Mazrui) who militarily helped to dislodge the Portuguese from Mombasa and who then ruled Mombasa as a city state from 1698 to 1837.

In the nineteenth century, European preoccupation with access to the Indian Ocean moved to the north of the African continent. Now that the Cape of Good Hope was indeed navigable, could there be a shorter access to the Indian Ocean? This ambition focussed on cutting a canal through the isthmus of Suez. Enter Ferdinand de Lesseps, the French engineer and the Vasco da Gama of the North. The Suez Canal took a decade to cut, and opened in 1869, providing Europe with access to the Indian Ocean. Moses had parted the waters to walk across the Red Sea. Ferdinand de Lesseps parted the land in order to sail into the Red Sea from the Mediterranean.

Much older than the three-way modern interaction of Europe, Africa and the Orient was the two-way ancient interaction between Africa and Asia. We are not sure whether the Semitic peoples were originally African and then crossed the Red Sea, or originally from Asia and then got Africanized in the Nile Valley. We do know that Semites are not only Jews and Arabs, but also such indisputably African ethnic groups as the Amhara and the people of Tigre in Ethiopia. Semitic peoples are distributed along both sides of the Red Sea, which de Lesseps parted at Suez.

In time, the rise of Islam provided additional globalizing complexity. Arabia's most important impact on Eastern Africa from the seventh century A.D. onwards turned out to be the religion of Islam. New civilizations flowered in Eastern Africa partly under the stimulus of Islam. City states Mombasa, Pate, Lamu, Kilwa and later Zanzibar responded to the clarion call of Islamic culture in partnership with African civilization. Some of these were also Vasco da Gama's ports of call on his way to India.

The interaction between the Arab world and eastern Africa was not only religious. It has had also profound long-term linguistic consequences. By far the most important has been the birth, consolidation and spread of the Swahili language during the last several centuries. Swahili culture provided da Gama with some of his guides and pilots to India. Kiswahili is not only the most successful indigenous language which Africa has produced, widely spoken and with a body of written poetry which goes back a number of centuries. Kiswahili is also the only language which is indirectly named after the Indian Ocean. The word Swahili is derived from an Arabic word for "coastal"—meaning the shores of the Indian Ocean (Swahili).

Islamic influence in eastern Africa inevitably also encompassed literature. Although Tanzania is clearly the vanguard of modern Swahili poetry, Kenya is the reservoir and custodian of classical Swahili poetry.

Islamic influence in eastern Africa was also architectural, encompassing mosques, palaces and ordinary houses. Elaborately decorated doors, furniture and chests were part of Islamization. Among the lost cities of eastern Africa is Gedi—a deserted city of Islamic architectural splendor. Historians still debate as to why its inhabitants left it in a hurry. But there is no doubt that this was once a very prosperous city, deeply influenced by both Islamic and African civilizations. Islamic architecture has been part of cultural globalization.

East African dress culture until the second half of the twentieth century was also partly a reflection of Islam. The *kanzu*, usually a white garment for males with some silk decoration, is still widely used not only by Muslims but also by non-Muslim Baganda and other Bantu peoples. It was developed as a garment by Swahili people under Arab influence.

Until the second half of the twentieth century the Arab impact in Eastern Africa also included the use of the Arabic alphabet and orthography for African languages. Kiswahili was written in the Arabic script for centuries before the triumph of the Latin alphabet under European colonialism in the twentieth century. Less well known is the fact that some of the earliest writings of Afrikaans in South Africa used the Arabic orthography.

Another major influence from Asia along the East African coast came from the Indian subcontinent. India's impact on Swahili cuisine came quite early, beginning with the increasing use of spices and subsequently adopting whole dishes complete with their Indian names. Today words and dishes like *biriani*, *pilau* and *chapati* are as much part of Swahili culture as they are part of the Indian way of life.

Another South Asian influence was on Swahili music. The musical influence probably began with such instruments as the *tabla* (an Indian drum), the *harmonium* and the *sitar* (an Indian harp). In the first half of the twentieth century Indian influence on both Swahili and Arabic music accelerated, partly in response to the growth of the Indian music and film industries. Indian films became popular in east African cities from Dar es Salaam to Durban, Mogadisho to Maputo, and Asmara to Zanzibar.

THE COMPARATIVE SCALE

When we look at Africa and Asia along the Indian Ocean comparatively, we are addressing both similarities and differences. Most countries in both continents emerged from World War II with the shared experience of colonial rule. Territorially, almost the whole of Africa was colonized, but only about 60 per cent of Asia. Temporally, on the other hand, African colonies were colonized for a much briefer period than Asian countries. When the British declared Kenya a crown colony, Jomo Kenyatta was already born. He was still alive when the British left—and fit enough to rule Kenya for fifteen years after Britain's 1963 departure. So brief was the colonial period in Kenya.

In contrast, many parts of India had been under different degrees of British control (governmental and nongovernmental) for hundreds of years before India's partition and independence in 1947. Indonesia had similarly been under some degree of Dutch control for centuries. West Asia was colonized by the Ottomans before it was colonized by West Europeans. Although less of Asian territory was colonized than African territory, South Asia was on the whole colonized for a longer period than eastern Africa.

But here a paradox emerges. African cultures and values were disrupted much faster in spite of the brevity of the colonial experience in places like Kenya. Within less than a century, whole African societies were Christianized—whereas most Asians had resisted Christianization for hundreds of years. And African political and educational systems became more dependent on European languages than did Asian systems. We never refer routinely to "English-speaking Asian countries" or "French-speaking Asian states" the way we discuss Anglophone Africa and Francophone Africa. The legislative process in the majority of African countries would grind to a standstill without the use of European languages.

By religious, linguistic, and educational indicators Africa seemed to be Westernizing faster than most Asian countries. Why then was Africa (outside South Africa) soon to be left behind by Asia in economic performance? If Africa was culturally Westernizing faster than Asia, why was Asia economically Westernizing faster than Africa? What is the relationship between cultural Westernization and economic Westernization?

We know that Western culture (including the Protestant ethic in Max Weber's sense) has been good for economic performance within the Western world. But we still do not know if Western culture is good for economic performance outside the West. On the contrary, some Asian examples outside of the Indian Ocean seem to demonstrate that the best approach is a combination of Western technique with indigenous culture. The Japanese after the Meiji Restoration in 1868 asked themselves, "Can we economically modernize without culturally Westernizing?" The Japanese said yes, and proceeded to adopt the strategy of what they called "Western technique, Japanese spirit". The first Japanese industrial miracle occurred (1868-1945), and Japan became a major industrial power while remaining culturally authentic.

In the 1920s and 1930s, the Turks under Mustafa Kemal Ataturk also asked themselves, "Can we economically modernize without culturally Westernizing?" The Turkish answer was "No—cultural Westernization is the only route towards modernization". They substituted the Roman alphabet for the Arabic in writing the Turkish language; they Westernized the legal system; they outlawed the fez; and of course they abolished the monarchy and the caliphate. And yet in the final analysis, Turkey's pace of industrialization and economic transformation was far slower than Japan's.

As Africa has emerged from colonial rule she has asked herself, de facto, if she could economically modernize without culturally Westernizing. In reality Africa's answer so far has been "cultural Westernization without economic modernization." Africa has been in "double jeopardy"—first, Westernizing too fast; and second, Westernizing in the wrong areas of Western culture. Mozambique, for example, has been Westernized in prayer, but not production; in idiom, but not innovation; in costume, but not computer. Again the Republic of South Africa has to be treated differently.

Taiwan, South Korea, and Hong Kong adopted mainly the more productive elements of Western civilization, and linked them to their own methods of social organization and cultural modification. Taiwan was colonized by mainland China, South Korea by Japan, and Hong Kong by Great Britain. At the end of World War II the three of them were not very different in level of modernization from the more prosperous parts of Africa such as Ghana, Kenya, and Southern Rhodesia (Zimbabwe). Much of Asia at that time was behind South Africa in economic performance.

Apart from Ethiopia and the Arab countries, African countries on the Indian Ocean were slow to get independence. But when Ghana became independent in 1957, its per capita income was about the same as South Korea's ($490 vs. $491, in 1980 dollars); by the early nineties, Ghana had only $400, while South Korea had shot up to $6,000. And yet Ghanaians still speak better English than South Koreans, are more Christianized than South Koreans. Higher cultural Westernization in the Third World has not necessarily meant higher economic and developmental returns. Every civilian ruler of Ghana has been a highly Westernized intellectual, yet Ghana has not kept pace with South Korea's relentless industrialization and economic performance. The secret of economic development may not lie in culturally imitating the West. It may lie in combining Western innovation with local authenticity.

In spite of the economic reversals of more recent days, East and South-East Asia may have found that secret. Nuclear politics permitting, South Asia is catching up. The African elite is still stifled by excessive Western imitation without adequate indigenous authenticity. This is even worse among most eastern Africa countries than among West African states.

THE COMPETITIVE FACTOR

While colonialism helped to turn African and Asian countries into political allies, that same colonial experience prepared the ground for their economic rivalry. The European powers created in the colonies competing economies of primary products. In cotton production, Sudan was in competition with India; in rubber, Liberia with Malaysia; in oil, Libya with Indonesia; in tea, Kenya with Ceylon (Sri Lanka). In some products Africa clearly enjoyed a margin of advantage at one time. Palm oil, groundnuts (peanuts) and cocoa became bigger exports from Africa than from Asia. Little Zanzibar dominated the production of cloves. And Africa led the way in mineral exports—chrome, cobalt, platinum, asphalt, diamonds, gold, and even copper.

In the last decade of the twentieth century, Africa had lost ground to Asian countries both in levels of production and in degree of diversification. Even in those agricultural products in which Africa had once been preeminent, Asian countries had either closed the lead or outstripped Africa. Malaysia is now a bigger producer of palm oil than the Ivory Coast; Indonesia produces more cloves than Zanzibar. This is quite apart from the even more dramatic difference in pace of industrialization and mechanization between most African countries and most Asian. Outside the Republic of South Africa, Egypt and the Maghreb, Africa is now way behind almost all Asian countries in industrialization.

In spite of Asia's recent economic reversals, what enabled Asia to outperform Africa economically within less than three decades? We have already referred to two interrelated causes—that

African societies attempted to Westernize too fast, and were Westernizing in the wrong areas. One result has been a peculiar process of MAL-MODERNIZATION. Africa has experienced urbanization without industrialization, Western tastes without Western skills, capitalist greed without capitalist discipline, Western consumption patterns without Western production techniques, Western culture of letters without Western culture of numbers. To paraphrase the English poet, Alexander Pope:

A little modernity is a dangerous thing,
Drink deep or taste not the Western spring.

Other factors have militated against African development as compared with Asia. Some sectors of labour costs in Africa have been higher than their counterparts in South Asia. A 1989 World Bank report, "SubSaharan Africa: From Crisis to Sustainable Growth," put the disparities in the following way:

> *In most African countries at the beginning of the 1980s, public sector wages, measured as a multiple of per capita income, were several times those of Asia. For instance, official Tanzanian wages, which were relatively low for Africa, were more than double those of Sri Lanka.*

The gross neglect of African infrastructure has also been very damaging to the wider strategy of development. Charges for infrastructure services in Africa are not only lower than economic costs; they are even lower than what is needed for infrastructure maintenance. The World Bank sub-Saharan report mentioned above has argued that "moderate increases in financial terms would yield revenue equivalent to about 20 to 30 percent of current public revenues." Such a strategy would be easy to implement, administer, monitor, and audit. Increased charges on electric power, water, roads (vehicle licenses) and telecommunications could improve maintenance and expansion. The price increases would be charges rather than taxes—hitting higher income groups rather than the poor. They may arrest the relentless decay of roads, railways, and equipment for telecommunications, electricity generation and water supply.

Improved infrastructure may also help Africa narrow its growing development gap with most Asian countries. Africa and Asia are also in competition as magnets for foreign investment. With the end of the Cold War, additional opportunities have emerged for Western investment not only among the former members of the Warsaw Pact, but also among newly liberalizing Asian economies. For example, India, which had been suspicious of Western investment during much of its socialist years, has now been newly converted to the virtues of the market and become extra receptive to foreign investors. For foreign investors India's population of 900 million people constitutes a very attractive market.

The Cold War had been an asset in creating a bond of political partnership between Africa and most of Asia. The Cold War had made the nonaligned movement meaningful, as Asian and African countries sought solidarity in distancing themselves from the Warsaw Pact and the North Atlantic Alliance. On the other hand, the end of the Cold War has weakened the political partnership between Africa and Asia and heightened the economic rivalry. India became a rival for Western investment, and became less of an ally in nonalignment. China became less a solicitor for political influence in Africa, and more of a competitor for capitalist investment within its own borders. And even Vietnam, for so long a pariah state under 'Pax Americana', emerged in the 1990s as a magnet for American business, as well as a magnet for the investment of other Western powers.

The end of the Cold War has definitely weakened the forces of political alliance between Africa and Asia—and strengthened the prospects of escalating economic rivalry. This includes the area of foreign aid. On the other hand, the increasing prosperity of some Asian countries makes them less and less eligible for foreign aid. East and South-East Asia may become more aid-givers than aid-recipients before the end of the twentieth century.

However, most parts of Africa and large parts of South Asia are still within the poverty belt of planet Earth. But in the post-Cold War era, foreign aid from the West is in any case declining. The question arises whether that aid is more likely to go to Laos than Liberia, to Azerbaijan rather than Burkina Faso, to Bangladesh rather than Nigeria. Is Asia outstripping Africa as a magnet for foreign aid in the post-Cold War era?

THE COOPERATIVE FACTOR: FROM AFRO-ASIANISM TO NONALIGNMENT

Four interrelated political forces helped to bring Africa and Asia closer together in the twentieth century, at least for a while. One was the bond of being fellow victims of European racial and pigmentational arrogance (racial solidarity). Second was the bond of being fellow victims of European cultural and civilizational arrogance (cultural solidarity). Third was the bond of being fellow victims of actual and direct Western imperialism and colonization (anti-imperial solidarity). And fourth was the bond of attempted disengagement from the Cold War while it lasted (the solidarity of nonalignment).

The first two bonds (those of racial and cultural solidarities) resulted in several Afro-Asian movements. The most famous was the Bandung Conference in Indonesia in 1955, which brought together emerging leaders of the two continents in a shared struggle against Western hegemony.

Clearly racial and cultural solidarity were closely linked to the struggle against imperialism—the third foundation of Afro-Asian solidarity. But in time imperialism was defined not simply as old style territorial colonization and annexation by Europe, but also persistent Western hegemony and control, including the powerful and ominous shadow of the United States on other countries.

But by this extended definition of imperialism, it was not merely Asia and Africa which had been dominated by the West; it was also Latin America. The concept of "the Third World" entered the vocabulary of international politics in the 1960s. The First World was the world of technologically advanced capitalist countries economically led by the United States, Germany and Japan. The First World was politically led by the United States, Britain and France. The Second World was the world of technologically advanced socialist countries, led or dominated by the Soviet Union at the time, but encompassing such healthier economies as that of Hungary and Czechoslovakia. The Third World was the world of developing counties in Africa, Asia and Latin America - ranging from Brazil to Botswana, from Pakistan to Paraguay, from China to Chad. The People's Republic of China insisted on being regarded as part of the developing world rather than being associated with either the Warsaw Pact or with the status of a potential superpower.

The extension of Afro-Asian solidarity to include Latin America had wide ramifications for the whole emerging paradigm of "North-South relations" in the global domain. It affected alliances in such United Nations fora as the United Nations Conference on Trade and Development (UNCTAD) and cooperation in the Uruguay Round, GATT and the newly emerging successor to GATT, the World Trade Organization. It was also part of the foundation of the Nonaligned Movement (NAM).

The Nonaligned Movement was originally inspired by concern about the arms race between the North Atlantic Treaty Organization (NATO) and the Warsaw Pact. The original 25 members of the Movement aspired to influence the world towards both disarmament and increasing decolonization. Over the decades, the Movement has retained the ambition of pursuing "peace, achievement of disarmament, and settlement of disputes by peaceful means". It has also remained committed to self-determination and independence "for all peoples living under colonial or alien domination and foreign occupation". But it has also increasingly emphasized "sustainable and environmentally sound development", the promotion of "fundamental rights and freedom", and the quest for strengthening "the role and effectiveness of the United Nations". Above all, the Movement has been advocating "a transition from the old world order based on domination to a new order based on freedom, equality and social justice and the well-being of all", as described in the Final Declaration of its 1989 Belgrade Conference.

Africa and Asia are still the senior continents in the Nonaligned Movement and have hosted most conferences to date. Indeed, until the mid-1990s only one conference had been hosted in Latin America—1979 in Havana, Cuba. Moreover, the largest country in Latin America, Brazil, has not been a member of the movement. On the other hand, in June 1994 the Movement admitted Africa's most industrialized and potentially most influential state on the world stage—the Republic of South Africa.

Just as the Afro-Asian solidarity movement suffered from a crisis of raison d'être as old-style European colonialism came to an end, the Nonaligned Movement has been suffering from a similar crisis of ultimate purpose in the wake of the end of the Cold War. Some members have gone as far as to recommend the dissolution of the Movement now that the world is no longer endangered by East-West tensions. Other members, in response, have championed a refocus on North-South relations at the global level with three paramount objectives: first, greater and healthier economic cooperation between North and South; second, greater and more self-reliant cooperation between South and South; and, third, a more general reform of the world system towards greater social justice and international equity. The countries of the Indian Ocean have been central to these movements.

THE INDIAN OCEAN: A ZONE OF CONFLICT

Conflictual relationships between African and Asian countries also go back centuries, but some versions of conflict have mainly disappeared. An ancient form of conflict which is now rare is the slave raid. West Asia was extensively involved in the African slave trade almost a millennium before the trans-Atlantic slave trade began. The Indian Ocean side of Africa which was either the raiding ground or the transit area for the slave-trade conducted by West Asians. While this eastern slave trade was smaller scale than the trans-Atlantic traffic of the seventeenth and eighteenth centuries, it was certainly a major cause of conflict between Asia and Africa.

If murder can be first degree and second degree, can slavery be similarly graded in depth of evil? Our own answer is that slavery can also be subject to a moral calculus. Just as virtue is subject to measurement, so surely is vice. Just as some social systems are more virtuous than others, surely some social systems are more vicious than others. What is the status of the West Asian slave trade tradition?

We have reached the conclusion that the least evil of the slave-systems in Africa was the indigenous system. It was the least influenced by racism (both the slaves and the masters were black), and the most ready to culturally assimilate the enslaved into the family of the master. The indigenous slave system was the least commercialized and the most responsive to family values. We regard it as third-degree culpable slavery.

This essay regards the West Asian slave-system as second in culpability. It probably has the highest record of upward social mobility—from slave to Sultan, against the background of the Mamluks in Egyptian history. If indigenous slavery was mono-racial (black slaves, black masters), West Asian slavery had been multiracial (slaves and masters could be of any race). India also had a slave dynasty of its own in the eleventh century. Islam itself did not declare slavery an outright vice, but it did declare the emancipation of a slave an outright virtue time and again. On the whole, the West Asian system should be declared guilty of second-degree enslavement. The system had also been among the most racially assimilationist cultures in the world. For example, if the father is Arab, the child is Arab, regardless of the ethnicity of the mother.

As for the Euro-Christian trans-Atlantic slave-system, this was by far the most directly wedded to racism (white masters, black slaves). It was polarized across the colour divide. The geography of slavery, involving the Middle Passage, was almost as devastating as the history of slavery. In terms of assimilating the slaves into the master race, this slave-system was the least integrationist and least assimilationist of the three systems. In economic orientation, the trans-Atlantic slave-system was the most commercialized. In scale, it was by far the most extensive coerced movement of human beings across long distances in human history. While there are indeed differences between Portuguese, Spanish, and Anglo-Saxon slave systems, the general picture is irresistible. If slavery is subject to gradation of culpability, the architects and main offenders of the trans-Atlantic slave system were definitely guilty of first-degree slavery.

Let us now return to the contemporary scene of slavery on the Indian Ocean. The situation in Sudan in the 1990s has posed a number of interrelated factual and moral questions. Is there indeed a new slavery, as some Western journalists and observers have claimed? If so, is it a revival of war-inspired enslavement, rather than a commercially inspired traffic? If is an outgrowth of the war system, is this a revival of Arab-Islamic slavery or of indigenous slavery?

In the history of both Islam and indigenous Africa, war often resulted in prisoners and captives, who were sometimes held in bondage.The war in Southern Sudan is not only between Arabs and black Africans; it is also between Southern ethnic groups and between factions of "tribes". If there is indeed slavery on any scale in southern Sudan, it involves both Arab capturing black and black capturing black, probably a partial revival of both Arab-Islamic and indigenous slavery. But is the Government in Khartoum implicated? Evidence seems to suggest it may be guilty of sins of omission rather than of commission, perhaps not doing enough to stamp out traffic in captives and their being held in bondage. A strong indication that the Government is not involved in any slave trade is that so many southern Sudanese regard northern Sudan as a haven to run to for safety from the war in the South, as shown in figures of the United Nations High Commission for Refugees on distribution of displaced persons within Sudan; they see the Khartoum Government as their protector from the bloody consequences of war.

Outside Africa newer forms of slavery are rearing their ugly heads in Asia. Child prostitution in countries like Sri Lanka, Philippines, Thailand and Cambodia is resulting in the sale of boys and girls, sometimes by their own parents. Western pedophile tourists are among the pillars of this new form of enslavement. Fortunately some Western governments are beginning to take note of the atrocities of this new form of child enslavement. Tourists committing pedophile offenses in far away Thailand may find themselves liable to persecution on returning home to England or Australia.

The moral calculus of slavery is looking for legal sanctions in the modern age. We are already setting up courts to try perpetrators of genocide. In the twenty-first century there is a case for setting up international courts to try perpetrators of slavery—first, second, or third degrees of the crime of bondage. The Indian Ocean is only part of that horrendous story.

More recent conflict situations include the racial relationships between Africans and South Asians in Eastern Africa. South Asians became commercially and financially successful in eastern and southern Africa, and generated a combination of class conflict and racial antagonisms. One of the more dramatic explosions was the mass expulsion of Asians by Idi Amin's Uganda in 1972, many of them merchants and professionals who were born in Uganda. There have also been periodic anti-Asian demonstrations in the streets of Nairobi, Kenya.

On the other hand, South Africans of South Asian origin have long been part of the vanguard of the struggle against racism and apartheid, going back to campaigning by Mohandas Gandhi, when he lived in South Africa at the beginning of the twentieth century. Many South Asians have since been among the leading activists of the African National Congress, including the woman who became the speaker in parliament, Speaker Jimwalla.

Large-scale war situations between Asia and Africa go back to many fluctuations in power between ancient Egypt and its Asian neighbors. Then came the momentous conquest of Egypt by the Arabs in the seventh century of the Christian era, followed by the Arab conquest of the rest of North Africa. A remarkable aspect of this historical saga was that those who were conquered by the Arabs became themselves Arabs.

Over the centuries Egyptians became not only Islamized in religion, but also Arabized in language and identity. Egypt became the largest Arab nation in population, the most advanced in know-how, the best endowed culturally, and potentially the mightiest militarily. Al-Azhar University in Cairo became the most distinguished centre of Muslim learning in the world, and one of the oldest.

War can indeed lead on to creativity and innovation. This happened in North Africa after the Arab conquest. It happened in Zanzibar after the establishment of an Arab Sultanate. It happened in Ethiopia after centuries of interaction between Southern Arabia and the Horn of Africa. More recently, conflict situations between Africa and Asia included competitive territorial claims to islands between Eritrea and Yemen, nearly leading to war in 1996.

CONCLUSION

The historic role of the Indian Ocean as an arena of African-Asian interaction is as vibrant as ever. Vasco da Gama gave the Indian Ocean a new Euro-significance, but the Afro-Asian bond was much older. In culture the relevant forces include Islamization, the birth and spread of new languages, and the impact of Indian music and cuisine. Politically African-Asian interaction has included both friendship and conflict, and has ranged historically from the slave trade to the post-colonial nonaligned movement. The economic contacts between Africa and Asia go back to at least the dhow trade with the monsoons, culminating today in such modern transactions as South Africa's arms sales to Asian countries. The great saga between Planet Earth's two largest continents is still unfolding. The Indian Ocean has encapsulated much of the action.

In the second half of the 20th century African and Asian countries have been both political allies and economic rivals. As economic rivals Asia has been winning. As political allies both continents have been beneficiaries.

A number of paradoxes characterize their respective experiences under the colonial Raj.

The Time-Space Paradox: Although Africa was colonized for a much shorter period than Asia, a much bigger percentage of African space was put under the colonial yoke than the percentage of Asian space. Less of Asian territory was colonized than African, but Asia was on the whole colonized for a longer period.

The Time-Change Paradox: Although Africa was colonized for a shorter period than were the colonized parts of Asia, African societies were changed and disrupted more fundamentally than were those of Asia. Within less than a century whole African societies were Christianized—whereas most Asians had resisted Christianization for hundreds of years. African political and educational systems became uniquely dependent on European languages.

The Culture-Economy Paradox:

Although Africa has, by some indicators, seemed to be culturally Westernizing faster than Asia, nevertheless Africa has been slower in economic modernization. Asian experience seems to indicate that, while thoroughgoing Protestant ethic and Western culture may be good for economic modernization in the West, they are not necessarily the best prescription elsewhere.

Some Asian examples seem to demonstrate that a combination of Western technique with indigenous culture is the secret of dramatic modernization and development - the Asian spirit for Asian development. Higher cultural Westernization in the Third World has not necessarily meant higher economic and developmental returns. As the Ghana-South Korea comparison shows, in reality, genuine development equals modernization minus dependency, especially cultural dependency.

The Paradox of Divisive Peace: Unfortunately peace is divisive. Asian and African countries were greatest allies when they really perceived shared dangers or common enemies. They were united against Western racism when the West was really bigoted (Afro-Asian racial solidarity). They were united in defense of non-Western civilizations when the West demeaned them (Afro-Asian cultural solidarity). Asian and African countries were of course also united against Western imperialism and colonialism (Afro-Asian anti-colonial solidarity). Asian and African countries were also united against the risks and dangers of the Cold War before it ended. (Afro-Asian solidarity behind the nonaligned movement, joined by Latin America). The Afro-Asian movement got weaker and weaker as the struggle against direct racism and imperialism receded into history. The nonaligned movement has lost its original reason for existence with the end of the Cold War—so there is a gallant struggle to transform the movement from its historic East-West concerns to the more enduring North-South issues.

Is East-West reconciliation bad for North-South relations? The end of the Cold War and the triumph of market ideologies is turning Africa and Asia away from the old political solidarities and more and more towards new economic rivalries. As Vietnam increases liberalization and the spirit of welcoming foreign investment, Vietnam becomes a rival to Africa for some of the investment and some of the aid. China is experimenting with market Marxism—and has become a much more attractive magnet for many Western investors than any part of Africa. India too is liberalizing, marketizing, and has begun to entice foreign investment with greater vigor. With a population significantly larger than all the 50 African countries added together, the Indian market is very appetizing for many foreign investors, though there are still some impediments.

The Roots-Goals Paradox: Every society seeks to develop two kinds of national myths—the myth of ancestry (to emphasize its heritage from the past) and the myth of purpose (to emphasize its reason for existence and its goals for the future). The myth of roots is tied to sense of history and identity. The myth of purpose is about sense of social direction. Societies which totally lose a sense of their past have a hard time realizing their future goals.

One reason for the failures of the Soviet Union experiment was that its sense of socialist purpose tried to deny if not destroy its sense of Russian heritage, starting with the execution of the royal family at the revolution's outset. A denial of the Russian past helped to sabotage the Soviet future.

Western imperialism undermined Africa's own sense of ancestral heritage more seriously than it undermined Asia's sense of its own glorious past. African school children were taught to believe that they were a people without history. A Regius Professor of Modern History at Oxford University as late as the 1960s was capable of proclaiming in a televised lecture: "Maybe in the future there will be African history, but at the moment there is none. There is only the history of the white man in Africa. The rest is darkness, and darkness is not a subject of history." Of course, Trevor-Roper was speaking nonsense. I hope since then he has had time to read the multi-volume Cambridge History of Africa and the 8-volume UNESCO General History of Africa.

In Asia, China's cultural revolution under Mao was a denial of roots and definitely resulted in damaged goals. Vietnam's communist experiment was for a while a denial of roots—with the consequence of damaging developmental goals. Both China and Vietnam have now retreated from an assault on their own ancestral heritage.

The partition of India was a partial denial of the subcontinent's shared religious heritage (Hindu plus Muslim). It released passions and rivalries which heightened a sense of sectional heritages (Hindu vs. Muslim). Goals suffered as a result for both India and Pakistan—and subsequently for Bangladesh, when it became separately independent. Mahatma Gandhi and the Nehru family in power tried to help India build a new myth of national purpose—'The Seven Pillars of a New International Indian Moral Order.' The four domestic pillars were non-violence, liberal democracy, socialist development, and church-state separation. The three international pillars were: nonalignment in a world divided by ideology, the arms race and military alliances; solidarity with the peoples of Asia and Africa and the dispossessed everywhere, in a search for a world without racism or imperialism; and a commitment to the United Nations system, including a struggle to liberate it from big power manipulation.

These were the seven pillars of wisdom which independent India's founding fathers seem to have had in mind when constructing the post-colonial myth of national purpose for India. The question is: how many of those seven pillars of wisdom are still left standing? Have others been added? Are the pillars still enough to ensure India's special historic role as a leader in vision and a vanguard of international moral standards? Are the pillars still enough to maintain India's role as a diplomatic bridge between the concerns of Asia and the aspirations of the African peoples?

The Cultural Paradox of Greed: Among the cultural casualties of the colonial experience was the underdeveloped nature of greed in Africa before the coming of the white man. Outside the Nile Valley, Great Zimbabwe and a few other exceptions, there were hardly any African equivalents of the Taj Mahal, or the Palace of Versailles, or the Temples of Cambodia. It takes a love of luxury, a pursuit of surplus, or a hunger for profit to produce a civilization of comparable monuments. It takes the exploitation of simpler people to build palaces, temples and pyramids. Most precolonial African cultures were neither greedy enough nor exploitative enough.

This underdeveloped greed was a casualty of European colonization and imperialism. Postcolonial African elites have learnt the attractions of luxury, surplus and profit with a vengeance! They have learnt capitalist greed, though not always capitalist discipline.

In his response to me, Robert McNamara has argued that if African problems require a culture change before they can be solved, then we are lost!! McNamara believes that culture change simply takes too long. "Africa's problems are too urgent to wait!" My answer is that not all Africa's problems require a culture change, and that culture change need not take too long. An example is postwar Japan where, after a brief American occupation that brought a new constitution, Japan experienced a rapid and fundamental transformation in its political culture, and a liberal competitive multiparty system has taken root.

It just goes to show that fundamental culture change need not take too long. There is therefore hope for Africa too as the new century unfolds, and globalization takes one more step forward. ■

WHOSE 'MODEL' FAILED?

Implications of the Asian Economic Crisis*

BY LINDA Y.C. LIM

Are there valid ideological explanations for the current economic problems in Asia? Can they be explained in terms of Western "versus" Asian models? The author argues that this approach overlooks real causes that are more varied and complex within the economic, political, social and cultural forces of each country. Professor Linda A. Lim, an economist from Singapore, is Director of the Southeast Asia Business Program at the University of Michigan Business School.

THE ASIAN ECONOMIC CRISIS is cause for rethinking the long-established consensus among mostly Western and Western-trained economists about the causes of the region's "miracle" economic growth and industrial development. Most recently restated in the Asian Development Bank's 1997 study *Emerging Asia: Changes and Challenges*, essentially an update of the World Bank's 1993 study *The East Asian Miracle*, this consensus interpretation among mainstream economists goes as follows:

Asian economic success is the product simply of the application of orthodox Western textbook economic principles—external "openness" to trade and foreign investment on the one hand, and domestic "good government" with small, balanced, or surplus government budgets and conservative monetary policy leading to low inflation and high savings rates, on the other. For these reasons, Asian countries typically rank relatively high on the "economic freedom" indices annually produced by think tanks such as the Fraser Institute in Canada[1] and the Heritage Foundation in Washington, D.C.[2] Of the countries currently in crisis, South Korea has been

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less open than the various countries of Southeast Asia, but nonetheless has subjected its firms to the discipline of the international marketplace through export manufacturing.

But mainstream economists are not the only Western or Western-trained scholars who have sought to dissect the Asian economic miracle through the lens of their particular discipline. Political scientists and political economists have also had their play with the subject, usually concluding that the "developmental state"—focused on promoting economic development in the national interest—and statist industrial policy—government protection and subsidies targeted at developing specific "strategic" industrial sectors—have been essential to the rapid industrialization of the East Asian newly industrialized economies.[3] South Korea is the classic case, but it is harder to identify "developmental states" and successful statist industrial policy in Southeast Asia outside of Malaysia and Singapore. Rather, state development policy in Thailand, Indonesia, and the Philippines is more likely to be viewed as having been captured by crony capitalists with close personal relations with governments, thereby violating the developmental state principle of state autonomy from special interests.[4]

Notwithstanding this, and despite the contradiction between the economist and the political scientist/political economist views, the Southeast Asian countries are always included as part of the so-called Asian economic miracle or "Asian model" that has been promoted by advocates of free-market economics. These include both conservative Western think tanks like the Heritage Foundation and more liberal multilateral institutions like the World Bank and the International Monetary Fund, whose Washington consensus of liberal economic policies has been foisted on emerging economies around the world.

Culture has been neglected or dismissed.

Although economists like these generally did not care for the industrial policies and microeconomic state interventions pursued by Asian governments, they did praise the latter's practice of conventional macroeconomic policy embracing both openness and fiscal and monetary conservatism. It is not an exaggeration to say that the Asian economies became showcases for the success of a policy prescription that is being peddled to other newly liberalizing emerging economies in Latin America, East Central Europe, Central Asia, and Africa.

When the Philippines, Taiwan, South Korea, and Thailand became politically democratic as well in the late 1980s, this completed the picture of triumph for the Western liberal model of free-markets-with-democracy that Francis Fukuyama proclaimed ushered in *The End of History*[5] or the end of the ideological political-economic conflict between East and West that defined the Cold War. In Asia, for example, it was proclaimed that the United States "lost the Vietnam war (against communism) but won the peace," as reflected in the economic prosperity and political stability enjoyed by its capitalist allies in the region, and the subsequent embarkation of their socialist neighbors, particularly China and Vietnam, on the path of market-oriented economic reform.[6]

Culture as an element in the Asian economic miracle has largely been neglected or dismissed by both Western economists and political scientists, although the former might occasionally acknowledge that the highly entrepreneurial, economically responsive populations in the region, themselves the product of market forces, might have spurred the development of private-enterprise economies. The latter sometimes note that Confucian cultures may have lent moral authority and political legitimacy to interventionist developmental states. Western and some Asian anthropologists and sociologists, on the other hand, have identified kin and ethnic networks, or "culturally embedded network capitalisms," as locally efficient means of mobilizing capital and industrial growth in the Asian miracle economies.[7]

Culture has also played a much larger role in explaining the Asian miracle by Asian intellectuals who hail mostly from the political establishment in patriarchal-authoritarian and semi-authoritarian states like Singapore, Malaysia, China, and Indonesia. They argue that "Asian values"—emphasizing the primacy of order over freedom, family and community interests over individual choice, and economic progress over political expression, together with thrift, ambition and hard work—were largely responsible for the fortunate public sector policies and private sector actions that resulted in the Asian miracle.

WHOSE MODEL FAILED?

The "Asian values" school was unpopular among many Western commentators for suggesting, among other things, that capitalism and democracy need not go hand-in-hand. So it was predictable that when the Asian economic crisis hit during a period of unprecedented economic strength in the United States and economic recovery in Western Europe, opponents of the "Asian values" school were out in full swing (chiefly in the editorial pages of the *Wall Street Journal*), crowing over its assumed demise and the concomitant assumed triumph of the "American way."

The Asian miracle was particularly attacked for its reliance on industrial policy and cronyism, or relationships between big business and government, both of which contributed to moral hazard in the inefficient financial sector and the resultant overinvestment in a classic asset bubble. Paul Krugman, the MIT economist who had some years earlier pronounced the Asian miracle a "myth" based on low total factor productivity growth,[8] is one of those who favor the moral hazard argument that "crony capitalism" or Asian reliance on *guanxi* (relationships) is what caused the crisis, which in this view is essentially a crisis of bad investments in both the public and private sectors.[9] This line of argument directly challenges both the praise of statist industrial policy by mostly Western political scientists and of "culturally embedded networks" favored by mostly Western anthropologists and sociologists.

There is no question that crony capitalism did play a role in the overinflation and subsequent deflation of economic growth and asset prices in Asia. But this is far from the only or most plausible interpretation for the crisis, and it is certainly not the whole story. Indeed, in the affected Asian countries and other emerging economies around the world, another interpretation is taking hold, one that is much less favorable to the liberal orthodoxy favored by Western economists. In this view, it is the Western model of free-markets-with-democracy that has failed along with the collapse of its prime success stories in Asia—or a case of "the West won the cold War, only to lose the peace."

THE PERILS OF OPENNESS

First, if openness was an essential ingredient of the Asian economic miracle, too much openness too fast was responsible for its downfall. In particular, rapid and sweeping (although not yet complete) capital market liberalization that began in the late 1980s led to a massive influx of foreign capital, especially short-term loan and equity capital, which contributed to the boom economy and overinvestment bubble of the 1990s. Without this influx of foreign funds—which in some cases amounted to as much as 75 percent of the equity capital on local stock markets—domestic crony capitalism alone could not have fed a boom and bubble of such proportions. Even without crony capitalism, high growth and the expectation of continued uninterrupted high growth, fed in large part by foreign capital, might have led to excessive risk-taking and overleveraging of local businesses believing that their economies were immune from the business cycle.

High domestic growth and investment in turn contributed to ballooning current account deficits, with imports (mostly of machinery and equipment required by the flood of new investments) constantly exceeding exports by a wide margin. This was further fueled by overvalued exchange rates, the result both of more or less fixed exchange-rate regimes, established to attract foreign capital by removing currency risk, and of large inflows of capital. Open capital markets and capital-account convertibility also increased these economies' vulnerability to currency speculation that could, at the appropriate moment, trigger a sudden massive exit of foreign funds as easily as these funds had previously entered.

Financial market liberalization in Asia also occurred before there were appropriate state or collective institutions to monitor and regulate financial institutions or local expertise to manage them. The region's much-vaunted entrepreneurialism led to the establishment of a horde of new banks and finance companies—Indonesia alone had more than 200 banks—within a short span of time and with inadequate experience in money management. Even without crony capitalism, excess capacity in the financial sector and intense competition to lend and invest among these neophyte institutions would have led to a fair proportion of "bad investments." It was aggravated by the easy availability of cheap capital from abroad, in many cases pressed on local borrowers by overeager foreign lenders who should have known better, but faced intense competition among themselves and were attracted by the returns presented by higher interest rates and by rosy projections of continued rapid growth.

Both the Western economists' and the political scientists' models have failed.

With or without the moral hazard presented by local crony capitalism, the resultant excess supply of capital was bound to lead to some bad investments as capital started flowing to more and more marginal projects. Unlike their local borrowers, foreign lenders and investors from Western countries and Japan possessed the requisite expertise in risk assessment and credit evaluation. But they apparently chose not to apply this knowledge, yielding instead to herd instinct[10] and, as Alan Greenspan characterized the sentiments toward the booming U.S. stockmarket, "irrational exuberance." This exuberance contributed first to the overvaluation of assets, then reversed course and with "irrational pessimism"[11] led to the current undervaluation, as the following quotes indicate.

All banks are under certain competitive pressure. If the market is attractive, you go with the herd. Even if you have doubts, you don't stop lending.[12]

—Ernst-Mortiz Lipp,
Member of the Board of Managing Directors of Dresdner Bank AG

There was a huge euphoria about Asia and Southeast Asia. It was the place to be.[13]

—Dennis Phillips,
Spokesman for Commerzbank

All the banks would be standing in line.

—J.P. Morgan,
Deutsche Bank, Dresdner

We were all standing in line trying to help these countries borrow money. We would *all see each other at the same places. We all knew each other.*[14]

—Klaus Friedrich,
Chief Economist, Dresdner Bank AG

There are problems in Asia now because investors and bankers were overly optimistic about the Asian economies, and then they panicked.[15]

—anonymous American banker

Openness and the dominance of private enterprise in the Asian economies also severely limited their governments' ability to intervene to control these flows. Given domestic excess demand and external imbalance (huge current account deficits), governments should have allowed their currencies to depreciate or raised taxes and interest rates and cut government spending to reduce domestic demand and correct the imbalance. But in very open economies such as these, with high import shares of GDP, currency depreciation would increase costs, including offshore loan servicing costs, and cause inflation from higher import prices, while higher domestic interest rates would be ineffective so long as businesses could resort to cheaper borrowing in accessible offshore markets—that is, they may as well have *increased* rather than reduced external borrowing.

We could have borrowed locally, something like 14 percent per annum, or borrowed overseas, where we could get (dollar) loans for 8 percent or 9 percent. If I had borrowed locally, the analysts would be saying that we were being foolish for not taking advantage of lower rates overseas... We could have bought insurance, but that would only be adding to the cost. Our government, our bankers, economists, even foreigners were telling us that the baht was stable... We never imagined that the baht would be devalued.[16]

—Chumpol Nalamlieng,
CEO of Siam Cement,
a blue-chip Thai company, on
their $4.2 billion dollar debt

At the same time, public sectors were small and mostly in balance, and governments had little control over overborrowing in the private sector. This reduced the effectiveness of raising taxes and cutting expenditures as is typically required, for example, in IMF programs in countries that have large fiscal deficits and loose money policies. In short, the dominance of private enterprise reduced the influence that governments had over the macroeconomy.

THE PERILS OF DEMOCRACY

The nascent democracies that since the late 1980s had taken hold in Korea, Thailand, and the Philippines also caused a loss of government control over the macroeconomy. Whereas previous authoritarian regimes could impose higher interest and taxation costs on local business communities almost at will, and had done so to maintain currency stability for decades prior, this became difficult with the increased political influence of businesses over elected legislatures whose members were either business persons themselves, or required business support to get elected.

As *Wall Street Journal* reporter George Melloan commented on the American political process,

> *Practicing politics costs money, and all politicians, unless they are fabulously wealthy, depend on campaign contributions. The more generous donors usually would like a favor or two. Quid pro quo, dating back at least to the steps of the Roman Forum, is alive and well in the U.S., as in most other corners of the world.*[17]

Thailand's short-lived coalition governments (five in six years), frequent general elections, and extensive vote-buying ($1.1 billion in the November 1996 general election alone) made it particularly vulnerable to vested interest opposition to the fiscal and monetary contraction necessary to correct an external imbalance—as suggested by the parade of four finance ministers and three central bank governors in the year before the 2 July 1997 devaluation of the baht. Democracy has also contributed to the expansion of crony capitalism, as exemplified by the favoring of businesses with ruling political party connections in Malaysia's joint public-private sector infrastructure projects, who naturally would oppose both interest rate increases and cuts in public expenditures from which they benefit.

By contrast, Hong Kong—which does not have an elected government—and Singapore—which has a single-party-dominated parliament—have done relatively well through the economic crisis. Like the authoritarian governments of the past in Korea and Thailand, both administrations maintain strong central economic control and can impose economic crisis. Like the authoritarian governments of the past in Korea and Thailand, both administrations maintain strong central economic control and can impose economic hardship on their populations or take politically unpopular measures when necessary for economic stabilization. Thus the Singapore government cooled off the domestic property market when it was still booming in 1996, and the Hong Kong authorities were able to ignore domestic business leaders' complaints about the currency peg hurting their businesses, and were able to raise local interest rates to beat back an attack by currency speculators in 1997. In the terminology of political scientists, both states have an autonomy from business interests that their newly democratic neighbors do not have.

IN DEFENSE OF THE WESTERN MODEL

Proponents of the Western liberal model do not, of course, see things this way. Instead, they assert that open markets and democracy have worked, and that instead it is the "Asian" parts of the Asian economic model that have failed—particularly statist industrial policy in Korea (beloved though it is of some Western political scientists); crony capitalism in Thailand, Malaysia and Indonesia (a reflection of both statist industrial policy and culturally embedded networks); and political mismanagement everywhere—from the virtual absence of government in Thailand, to persistent authoritarianism in Indonesia, and an idiosyncratic strong leader in Malaysia. They further argue that the excessive lending and investment by domestic and foreign financial institutions resulted from information gaps caused by inadequate local government regulation, monitoring, and disclosure requirements, not from mistakes made by financial markets. They believe that financial restructuring along Western lines and the takeover of troubled local financial institutions by more experienced and expert foreign counterparts would increase efficiency in the channeling of local saving to investments, reduce the risk of bad investments, and forestall a recurrence of the present crisis.

The IMF occupies a peculiar position in the Western economic policy canon. On the one hand, the multilateral agency is seen and has operated as instrument of Western policy orthodoxy that advocates free trade and capital flows together with fiscal austerity and monetary conservatism. The IMF typically requires policy deregulation and liberal economic reforms, including financial sector liberalization and restructuring, in exchange for low-interest emergency loans of foreign exchange for client countries facing balance of payments difficulties and inability to meet their external liabilities. At the same time, it is recognized that the availability of IMF "bailouts" creates another moral hazard problem, by encouraging governments and private borrowers, lenders and investors to take excessive risks in emerging markets, secure in the knowledge that their risk is minimized by the likelihood of an IMF rescue should things go really bad. The result is periodic overinvestment and overlending bubbles such as characterized Mexico in 1994 and Southeast Asia and Korea in 1997.

THE ASIAN RESPONSE

For Asians, disillusionment with market openness has set in. At worst, they see themselves as the victims of a massive conspiracy of Western governments, the IMF, financial markets, and industrial corporations to first deliberately inflate and then deflate the asset values of Asian banks and corporations, and then to subsequently take control of them at post-crisis fire-sale prices under forced liberalization by the IMF.[18] At best, Asians view the current crisis as a case of massive market failure, particularly on the part of globally unregulated foreign financial market actors who, despite their greater expertise and global experience, still indulge in excess lending and investment to Asian markets, and so cannot be trusted to better manage the local financial institutions that they may take over.

One of Thailand's most respected economists, Ammar Siamwalla, former president of the Thailand Development Research Institute, has been very critical of his own government's errors that led to the crisis, but still expresses extreme doubts about the policy of financial liberalization.

> *The currency market is really crazy...we are receiving all the punishment because we have opened our currency markets to the forces of globalization (which) in retrospect has been far too rapid.*[19]

Others share his views:

> *The West has pushed us to open our markets, but what are we getting in return? Through globalization we have created a monster.*[20]
>
> **—Park Yung Chul,**
> **President of Korea Institute of Finance**

Already, China and Vietnam have postponed capital market liberalization that would expose their currencies to speculation, and there have been calls for regional and global cooperation in the monitoring and possibly regulation of international capital flows. This idea was first raised by Malaysian prime minister Mahathir and supported by his nemesis, currency trader George Soros, who has said:

> *Financial markets are inherently unstable, and international financial markets are especially so. International capital movements are notorious for their boom-bust pattern... The recent turmoil in Asian markets raises difficult questions about currency pegs, asset bubbles, inadequate banking supervision, and the lack of financial information which cannot be ignored. Markets cannot be left to correct their own mistakes, because they are likely to overreact and to behave in an indiscriminate fashion.*[21]

Today, even the World Bank has lent its support to some forms of capital controls for small open economies that can be severely disrupted by massive inflows and outflows of foreign capital. There is growing consensus that, at a minimum, some international monitoring and perhaps risk-insuring agency is necessary to oversee these currently largely unregulated flows.

At the same time, some Asians may also lose their enthusiasm for the chaos, corruption, and weak and unstable government that political democracy has ushered in to different degrees, in countries like Korea, Thailand, and the Philippines, which contributed to the crisis both by weakening government macroeconomic control in some cases and by increasing financial markets' perception and punishment of political risk in these countries.

CONCLUSION

Clearly, both the Western economists' and Western political scientists' competing open and statist models have, in some sense, failed with the crisis in their showcase economies in Asia. On the one hand, market openness without the requisite institutional infrastructure and expertise—to manage it can be a recipe for economic disaster. Even the normal workings of global financial markets themselves can be disruptive to small open economies. On the other hand, statist industrial policy can lead to crony capitalism, excess capacity, overleverage, and bad investments (as can Western sociologists' "culturally embedded networks" of ethnic business relationships, or *guanxi*). Both openness and statism have contributed not only to the Asian miracle, but also to the Asian meltdown.

What about "Asian values"? At first glance, the indictment of openness and democracy in the crisis, and the evident need for more state-led institution building, state monitoring if not control of private sector financial transactions, and state autonomy from private interests in the political sphere, might seem to be a confirmation of the wisdom of the Asian values school. Too much freedom too fast in both markets and politics can lead to downfall, suggesting a continued need for a strong, benevolent, central state authority.

But at the same time, Asian government involvement in industrial policy and Asian cultural networks may also be indicted for fostering the crony capitalism that led to overinvestment in bad projects—ranging from Indonesia's Timor "national car" project[22] (of President Suharto's son), to Malaysia's privatization of huge public infrastructure projects favoring politically well-connected businesses and individuals, and the overextension of credit by overseas Chinese-owned banks to overseas Chinese industrial conglomerates, with the presumed security of "relationships" substituting for modern risk assessment. The fact that the authoritarian regime and Indonesia's policy errors have compounded both the economic crisis and its adverse social and political consequences also undermines the belief of some Asian values advocates that authoritarianism might be superior to democracy in economic policy management. The Indonesian case contrasts vividly with the market confidence inspired, at time of writing, by the policy statements and actions of newly elected President Kim Dae Jung of Korea.

The Asian crisis exposes the futility of simplistic ideological models.

In short, the Asian economic crisis does not provide unqualified support for *either* the Western open-markets-and-democracy model *or* the Asian strong-government-and-cultural-values model. Both need some adjustment for global and national capitalisms to work smoothly. Certainly, the paths to capital market liberalization and democracy should be carefully planned, and perhaps staged to occur only in line with the concomitant development of supportive state and civil institutions. At the same time, governments need to resist the pressures of would-be crony capitalists to interfere with their fiscal, monetary, and regulatory autonomy, while private sector business networks need to be adjusted to adequately account for risk and to reduce purely rent-seeking behavior.

The Asian crisis does expose the futility of applying simplistic and essentially ideological models to the messy practical business of public and private sector economic management in developing countries whose political, economic, and business systems are not only diverse and complexly intertwined, but also still evolving. Far from yet another presaging of the end of history—in this case the presumed triumph of "Western" over "Asian" models—the crisis suggests that it is time to *return* to history, that is, to each country's particular configuration of economic, political, social, and cultural forces, to discern both the complex, multifaceted causes of the crisis and its eventual solutions. This is a task too important to allow to be jeopardized by those who would approach it only through the limited lenses of partial, monocausal theories and models of one or the other cultural-ideological predilection. ■

Notes

* This article was first published in the *Washington Quarterly*, Summer 1998.

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[6] About the only sour note in this triumph was sounded by Samuel Huntington's *Clash of Civilizations*, which warned that the cessation of the Cold War's ideological conflicts would usher in an era of mounting cultural conflict between the West on one side, and the competing civilizations of Islam and Confucianism on the other. See Samuel Huntington, *The Clash of Civilizations* (New York: Simon and Schuster, 1996).

[7] S. Gordon Redding, *The Spirit of Chinese Capitalism* (Berlin: Walter de Gruyter, 1990); Gary G. Hamilton, ed. *Business Networks and Economic Development in East and Southeast Asia* (Hong Kong: Center of Asian Studies, University of Hong Kong, 1991); Robert W. Hefner, *Market Cultures: Society and Morality in the New Asian Capitalisms* (Boulder, Colo.: Westview, 1998); Richard Whitley, *Business Systems in East Asia: Firms, Markets and Societies* (London: Sage Publications, 1992); World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).

[8] Paul Krugman, "The Myth of Asia's Miracle," *Foreign Affairs* 73 (November/December 1994), pp. 62-78.

[9] Paul Krugman, "What Happened to Asia?" (mimeo, January 1998).

[10] Jeffrey A. Frankel, "How Well Do Foreign Exchange Markets Function?" in Mahbub ul-Haq, Inge Kaul, and Isabelle Grunberg, eds., *The Tobin Tax: Coping with Financial Volatility*, (New York: Oxford University Press, 1996), pp. 41-81.

[11] "Irrational pessimism" is how Japanese finance ministry official Eisuke Sakakibara characterized sentiment toward the depressed Japanese stock market.

[12] Nayan Chanda, "Rebuilding Asia," *Far Eastern Economic Review*, February 12, 1998, pp. 46-50.

[13] Timothy O'Brien, "Covering Asia With Cash, Banks Poured Money Into Region Despite Warning Signs," *New York Times*, January 1998, p. D1.

[14] Ibid.

[15] Ibid.

[16] Assif Shameen, "Biting the Bullet: Siam Cement Tackles its Debts," *Asiaweek*, October 24, 1997, p.62.

[17] George Melloan, "Influence Peddlers have a Growing Global Clientele," *Wall Street Journal*, February 17, 1998, p. A23.

[18] I have analyzed and dismissed such "conspiracy theory" in Linda Lim, "Economic Crisis and Conspiracy Theory in Asia" (mimeo, February 1998).

[19] Paul Scherer, "Distrust of Western Economics Grows in Thailand Amid Crisis," *Wall Street Journal*, January 20, 1998, p. A14.

[20] Brian Bremmer, Pete Engardio, et al., "What to Do about Asia," *Business Week*, January 26, 1998, pp. 26-30.

[21] George Soros, "Toward a Global Open Society," *Atlantic Monthly*, January 1998, pp. 20-24.

[22] This project gave special tariff privileges to a new car company started by Tommy Suharto in a joint venture with Kia Motors of Korea, enabling their product, the Timor, to be sold on the local market for a price far below that of established competitors (mainly Japanese) and aspiring new entrants (from U.S. and European carmakers).

Windows ON THE SOUTH

Current trends, perspectives & events

G-77 SUMMIT FOR THE NEW MILLENNIUM

The 132 developing countries in the Group of 77 (G77) are preparing to mark the dawn of the new millennium with a summit meeting that would reassert their solidarity. The central question will be what can developing countries do collectively to improve their development opportunities and defend their interests.

It would take place only a few months before the proposed Millennium General Assembly meeting of the entire United Nations membership. The countries of the South would make a collective statement at the Assembly, which would be hammered out at their prior summit.

The idea for a South-South millennium summit arose in early 1997 at a G-77 meeting in San Jose, Costa Rica, and was subsequently endorsed by the annual Ministerial meeting.

Preparations have already begun when 30 high-level experts met on 10 and 11 August this year, hosted by the Government of Indonesia in Jakarta. Participants discussed ways of strengthening South-South cooperation and development financing in the light of new and profound challenges unleashed by the process of globalization and liberalization of the world economy. They recommended creation of an expert group to review the Caracas Programme of Action on South-South cooperation.

A background paper by the Geneva-based South Center says the summit's key political purpose would be to assert and renew the collective presence of the South on the world scene, following a period of ambivalence and lack of forceful action.

One way of strengthening the South's position in the world economy could be to forge cooperative links among existing regional and subregional groups of developing countries. From 2 to 4 December 1998, a high-level meeting hosted by Indonesia in Bali will explore possible direct cooperation among such groupings as ASEAN, CARICOM, UMA, MERCOSUR, ECO, SAARC, the GCC, and ECOWAS. ■

LATIN AMERICA AND THE CARIBBEAN TO INTENSIFY JOB CREATION

The directors of technical cooperation from 24 countries in Latin America and the Caribbean met in Bridgetown, Barbados, 21-24 June 1998, and discussed TCDC strategies to boost job creation through development of the informal sector, micro and small-scale enterprises. The meeting responds to growing unemployment in Latin America and the Caribbean despite relative economic gains achieved by the region in recent years.

Economic growth, the participants observed, is not equally reflected in employment opportunities. According to a report published by the UN Economic Commission for Latin America and the Caribbean (ECLAC), the average growth rate of the gross domestic product of Latin America and the Caribbean countries from 1991-1994 was 3.7 per cent, and dropped to 3.5 per cent in 1996. At the same time, the average urban unemployment rate, which was 6.2 per cent between 1991 and 1994, rose to 7.7 per cent by 1996.

The meeting was attended by government representatives from Argentina, Bahamas, Barbados, Brazil, Belize, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, and Venezuela. It called for transformation of the informal sector into a mechanism for sustainable development. This requires governments to assume a facilitating role by simplifying regulations and standardized requirements for business operation, easing access to loans, information, technology and other social services. ■

CLOSER COOPERATION AMONG SMALL ISLAND STATES IN AFRICA

Small island developing states (SIDS) in Africa are now planning closer cooperation on common needs. Hosted by the Government of Seychelles, they met in Mahe from 7 to 10 July 1998, and endorsed a joint Declaration and Plan of Action.

Eight countries were at the meeting and signed the final documents. Six are small island countries: Cape Verde, Comoros, Madagascar, Mauritius, Sao Tome and Principe, and Seychelles. Two are small countries on the western coast of Africa: Equatorial Guinea and Guinea-Bissau. The signing represents a milestone in their struggle to overcome isolation and gain entry into the global economic system. The Mahe Declaration and Programme of Action contains guiding principles to ensure economic and technical cooperation for sustainable development. It identifies priority areas of cooperation, including management of human resource development, tourism, biodiversity, climate change, coastal and marine resources, fresh-water resources, and management of natural and environmental disasters. ■

Human Development Report 1998

United Nations Development Programme

The Human Development Report, now in its ninth edition, is a year-round resource for reference, debate and discussion. The special focus of this edition is on consumption patterns in today's world, and their implications for human development. The Report analyses present consumption patterns and how they lead to consumption shortfalls for the poor and create inequality and environmental stress. It asks how present patterns of consumption should change to promote more sustainable human development for both the rich and the poor, present and future generations. It also provides an action agenda, ranging from community action by consumer groups to private sector initiatives, to government incentives for consumption, which is both equitable and sustainable.

An indispensable resource for policymakers, students of international development and development professionals, the Report updates the ranking of 174 countries according to the Human Development Index (HDI). It also gives the global ranking of 163 countries in terms of the Gender-related Development Index, which measures inequalities between men and women in human development achievements. New to this edition, in addition to the Human Poverty Index for 77 developing countries—measuring deprivation in basic human capabilities—is a Human Poverty Index for 17 industrial countries. This new index attempts to measure human poverty in the industrial world, and includes such variables as exclusion from the world of work and from the social interactions associated with employment.

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